12/23/78-1/1/79

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 12/23/78-1/1/79; Container 101

To See Complete Finding Aid:
http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Memo	~~Blumenthal to Pres. Carter, 1 pg., re:Chinese Financial Movements~~ opened per RAC NLC-126-15-29-1-3, 6/22/13	12/22/78	A
~~Letter~~	~~Rev. Glennon King to Pres. Carter, 1 pg., re:personal matter~~ Open 8/10/93	~~12/25/78~~	~~C~~

FILE LOCATION

Carter Presidential Papers-Staff Offices, Office of Staff Sec.-Presidential Handwriting File, 12/23/78 - 1/1/79 [1] Box 113

RESTRICTION CODES

(A) Closed by Executive Order 12356 governing access to national security information.
(B) Closed by statute or by the agency which originated the document.
(C) Closed in accordance with restrictions contained in the donor's deed of gift.

C

THE HOLY REVEREND CLENNON KING

of "President Carter's Church in Plains"
600 S. JEFFERSON STREET, ALBANY, GEORGIA 31702

THE WORD OF THE LORD to President Jimmy Carter, Christmas 1978:

YOU ARE GOING TO BE RENOMINATED & REELECTED IN 1980, BUT IN ORDER TO DO THIS YOU ARE GOING TO HAVE TO STOP LETTING MARXIST NEGROES PARADING IN THE GUISE OF "CHRISTIANITY" — LIKE REVERENDS ANDY YOUNG & JOE LOWERY — MONOPOLIZE YOUR EAR DRUMS,

FOR, IN THE FINAL ANALYSIS, THESE WERE THE SELFISH, ENVIOUS, GREEDY PEOPLE WHO MANIPULATED YOU INTO KEEPING ME OUT OF YOUR CHURCH, <u>NOT</u> YOUR DEACONS.

WITH EVERY GOOD WISH FOR A HAPPY CHRISTMAS AND A JOYOUS NEW YEAR,

Clennon

YOUR HUMBLE MINISTER (SERVANT)

THE WHITE HOUSE
WASHINGTON

1/1/79

Mr. President:

Anne Wexler and Jack Watson concur with Stu *et al*.

Rick

THE WHITE HOUSE

WASHINGTON

C

December 23, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
JIM McINTYRE
CHARLES SCHULTZE
SECRETARY BERGLAND
SECRETARY CALIFANO
SECRETARY MARSHALL

SUBJECT: Welfare Reform

This memorandum asks your approval of the basic welfare reform strategy to which we have agreed. In brief, our recommendation involves:

-- Approval at this time of a basic package with costs of $5.5 billion (1982 dollars) when fully implemented in 1982.

-- Authority from you to discuss this program with key members of Congress, State and local government, and other interests with the understanding that although every effort will be made to hold the cost down, we may recommend to you specific additions in the range of $700 million to $1.5 billion before the proposal is formally submitted to Congress. ← ? no

BACKGROUND

Actions to Date

It is important to note that the last Congress took a number of steps toward the achievement of the Administration's welfare reform objectives. These include:

° Restructuring the CETA PSE program to provide a new Title II with additional training slots and 267,000 jobs sharply targeted to the structurally unemployed.

- Enacting both the Administration's targeted employment tax credit, which when fully effective will provide $1 billion in incentives annually to hire youth and welfare recipients, and an expanded WIN tax credit.
- Expanding the Earned Income Tax Credit from $900 million to $1.8 billion.
- Enacting major reforms in the Food Stamps program.

Development of the Administration's Proposal

Attached at Tab A is a memorandum submitted by Secretary Califano, in which Secretaries Marshall and Bergland concur, which provides useful background and offers two options -- one costing $10.7 and one costing $7.0 billion fully implemented in 1982 in 1982 dollars. While the Secretaries initially recommended the $10.7 billion program, they now support the strategy recommended in this memorandum.

Like the larger options described in TAB A our recommendation is an incremental reform designed to:

- increase work effort in the welfare population; ok
- provide greater aid to low-income families working in the private sector, at the same time reducing reliance on welfare, by expanding the Earned Income Tax Credit (EITC); ok
- place primary reliance on the provision of employment and training opportunities rather than cash to assist the employable poor, with maximum emphasis on encouraging private sector employment; ok
- improve the adequacy and fairness of the welfare system by raising AFDC benefits in the low-payment States and mandating limited coverage of two-parent families; ?

- simplify the welfare system, increase efficiency, and reduce error and fraud; ok

- provide fiscal relief to State and local governments. ? mini-mize

DESCRIPTION OF THE JOINT WELFARE REFORM PROPOSAL

1. Reforms of Cash Assistance. We recommend a series of changes in administration and program benefits at a net cost of $1.6 billion.

To improve administration of the existing AFDC program we recommend:

- Standardized (rather than itemized) deductions for work-related expenses. ok

- Regular reporting of actual income (rather than estimating future income over periods determined at State option). ok

- Aligning the definitions of income and assets in the AFDC program with those recently enacted for food stamps. effect?

To improve the benefit structure of the program, we recommend:

- A national minimum benefit of 65% of poverty for AFDC benefits and food stamps combined. This will raise benefits in the 12 lowest-benefit states.

- Improved coverage of two-parent families through:

  -- mandated coverage of intact families through the existing national AFDC - Unemployed Parents program in the 24 states which presently do not have such coverage; ok

  -- elimination of restrictions which presently limit the program to those who have worked full-time in six of the 13 most recent quarters. ?

-- improving work incentives by removing the present provision prohibiting more than 100 hours monthly of employment by those receiving AFDC-UP benefits. ok

-- AFDC-UP benefits would be provided on an 8-week basis to those able to work but unable to find a job, with stringent job search requirements. ok

-- to strengthen the work incentive, in the AFDC-UP program no federal financial participation will be available for benefits exceeding 80% of poverty. ok

2. Employment Opportunities and Work Incentives

A. Jobs.

Our program would not guarantee, but would attempt to assure the estimated 710,000 jobs needed to provide employment to principal earners of families eligible for cash assistance. (Single-parent family heads with children under age 7 would not be required to work but could do so voluntarily.) However, we estimate that:

- at least 150,000 jobs will be provided to this population by the private sector under the influence of the Targeted Employment Credit, the WIN tax credit, and training programs.

- at least 167,000 jobs will be available from the existing structural unemployment program contained in Title II of CETA.

Our proposals would, therefore, provide up to 390,000 additional jobs through Title II of CETA, and other training services targeted to persons eligible for cash assistance, at an additional gross cost of up to $5.3 billion. Because there would be a savings in cash welfare payments, unemployment compensation benefits and taxes paid on earnings, the net cost to the Government of the additional jobs and training slots will not exceed $2.8 billion.

OMB observes that improved performance in the private sector or improved use of training opportunities presently provided by the Federal Government could reduce the need for new federally-provided job opportunities. To the extent that this is true, a smaller number of additional federally supported jobs would be provided.

In addition, our proposal would make clear that our commitment to providing any particular level of direct employment in 1982 or any other year is subject to:

- economic conditions at the time; ✓
- budgetary realities; and ✓
- the performance of the new CETA Title II program and of the expanded tax credits enacted last year. ✓

However, since our proposal relies on work rather than cash payments for those able to work, a substantial level of jobs is important, especially to coverage of intact families.

B. Earned Income Tax Credit

Our proposal includes an expansion of the existing Earned Income Tax Credit of $1.1 billion to increase the incentives of low income working families to work in the private sector (or in regular public jobs). Under amendments adopted last year the EITC now amounts to 10% of earnings up to $5,000 in earnings and phases out at $11,000. Our proposal would increase the credit to 15%.

3. Fiscal Relief

Our proposal contains $900 million in fiscal relief, and a hold-harmless provision assuring that in no case will State costs increase.

The relief is greatest for the high-cost, high-benefit states such as New York and California, with New York State receiving approximately $186 million and California receiving $161 million.

Restrain This - We may wind up with just another $1B.1 in Rev Sharing

The fiscal relief is reduced sharply from last year's bill (which provided $2.2 billion). States are in generally favorable financial condition but many localities (including New York City and California communities impacted by Proposition 13) are not. Therefore we may recommend that in those states where local governments contribute to the welfare program there be a 100% passthrough of the fiscal relief to the local level. Last year's bill passed through 50 percent. (Under this full passthrough approach relief to New York City will be approximately $120 million.)

STRATEGY

We have designed a very lean package which makes progress toward your major reform goals. Enactment of any welfare reform in the next session of Congress will require support from key members of the House (including Al Ullman, Jim Corman, Carl Perkins and Gus Hawkins), bipartisan support in the Senate, and support from outside groups including State and local governments and civil rights leaders. ?

We are hopeful that a working consensus can be established in the next 3 weeks. But to do so we believe that we must have leeway to make modest increases in the program during the course of negotiations.

We urge you to approve "negotiating leeway" of $700 million - $1.5 billion with the understanding that (a) we will do our best to hold additions down (b) that no agreement will be made to an addition without your approval, and (c) that the trade-off for increases must be enhanced chances for enactment. J would prefer to avoid this

AREAS OF POTENTIAL DISAGREEMENT

All of us agree on the basic negotiating package and the strategy outlined above. However, you should know that when you make your final decisions there may be areas of disagreement.

- Secretaries Califano and Bergland strongly recommend cashing out food stamps for SSI beneficiaries at a cost of about $500 million. The cash-out is an important benefit to the elderly and disabled who otherwise do not benefit from this reform. It is also the only consolidation in this scaled-down package. It will simplify administration, substantially increasing efficiency and reducing errors. Your other advisors want to await the outcome of consultations before making a recommendation in this area.

What happened to the $7 bil ?

- CEA believes that it is important to emphasize three characteristics of the strategy in this memorandum: (1) We are not proposing a guaranteed job and should make this fact clear in our negotiations and statements. (2) Any spending for new CETA jobs in 1982 is contingent on experience with existing programs and on economic conditions. (3) We are not committed to the mix of provisions in the $5.5 billion package described here; for example we should be willing to shift some money from jobs to more extensive cash reforms or to a bigger EITC if further analysis and political considerations indicate that such a shift would be desirable.

Recommendations

1. Approve $5.5 billion package as a basis for discussions with outside groups and Congress.

Agree ✓ (recommended) ________ Disagree

2. Approve $700 million - $1.5 billion negotiating room.

Agree ________ (recommended) ✓ Disagree

________ Other

FY 1982 Net Federal Costs

($ billions)

Cash Reforms	1.6	
EITC expansion	1.1	
Jobs		
(Gross)		(5.3)
(Cash Savings)		(-2.5)
Jobs total	2.8	
Total Federal	5.5*	

*This total includes $900 million in fiscal relief. With food stamps added to the package, the total would be $6.0 billion.

CALIFANO MEMO

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

November 29, 1978

MEMORANDUM FOR THE PRESIDENT

FROM JOE CALIFANO

SUBJECT: WELFARE REFORM

The attached memorandum was prepared jointly with staff from the Departments of Labor and Agriculture and has been approved by Ray Marshall and Bob Bergland.

It suggests a strategy for welfare reform in the 96th Congress and seeks your approval to begin Congressional consultation on one of two broad options. Your final approval of the details would not be sought until we have completed that consultation, but we need to have your tentative views before proceeding further.

Neither option entails new outlays in FY 1980. The bulk of new outlays under either option would not be phased in until at least FY 1982. Both options represent significantly scaled down versions of the Program for Better Jobs and Income (and would cost between one-third and one-half of PBJI in FY 1982).

Nonetheless, both options could achieve significant reform in our nation's welfare system—and make substantial progress toward the important goals established by the Administration's original proposal.

An executive summary precedes the longer memorandum.

Attachments

November 29, 1978

WELFARE REFORM MEMORANDUM: EXECUTIVE SUMMARY

We believe that a Congressional consensus can be forged on an "incremental" welfare reform bill (i.e., one that retains the current AFDC, Food Stamps, and SSI programs). We should begin consultation soon with the Hill and interest groups to move from the broad consensus on goals that now exists to the specifics of a proposal that would pass in the 96th Congress.

This memoramdum presents two options for your consideration, one at about one-half and the other at about one-third of the Congressional estimates of the cost of the Program for Better Jobs and Income (PBJI). No funds are targeted for Welfare Reform in FY 1980, and most new outlays for the program would occur first in FY 1982. Both options would:

- o increase work effort in the welfare population;
- o place primary reliance on the provision of employment and training opportunities as a method of assisting the employable poor to maintain incomes of families whose primary worker cannot find a job;
- o provide greater aid to low-income working families without increasing reliance on welfare by expanding the Earned Income Tax Credit (EITC);
- o improve the adequacy and fairness of the welfare system by raising benefits in the low-payment States and mandating limited coverage of two-parent families;
- o simplify the welfare system, increase efficiency, and reduce error and fraud;
- o move toward consolidation by cashing out Food Stamps for the SSI population;
- o provide fiscal relief to State and local governments.

The net Federal costs of the two options are:

	Option A	Option B
FY 1982 Net Cost	$10.7 billion	$7.0 billion
1982 Fiscal Relief (included in net cost)	$1.9 billion	$900 million

Options A and B differ as follows:

- o Option A would provide $1 billion more in fiscal relief;
- o Option A would spend $1.7 billion more on expanding the EITC;
- o Option A would create 550,000 new CETA jobs for principal earners while Option B would create 462,500 new jobs and retarget about 87,500 existing slots (saving about $700 million);
- o Option A would cash out Food Stamps for SSI recipients at a more generous level (costing about $300 million more).

As noted, neither option requires any FY 1980 outlays. Under each it is possible to phase in components to reduce the FY 1982 Budget impact and push some of the increased cost into FY 1983, if that is necessary.

November 29, 1978

WELFARE REFORM MEMORANDUM

I. INTRODUCTION

This memorandum seeks your decision on the broad outlines of the welfare reform proposal the Administration should submit to the Congress next year. No new funds are sought for welfare reform in FY 1980, other than for the Demonstration Projects being requested in the DOL budget.

Your original proposal--the Program for Better Jobs and Income (PBJI)--would have cost about $20 billion in FY 1982 net outlays using Congressional Budget Office assumptions, which counted all Earned Income Tax Credit (EITC) outlays and used only offsets stemming directly from the bill. In this memorandum we discuss two Options--one costing approximately half of PBJI in Fiscal 1982 ($10.5 billion) and a second costing slightly more than one-third of PBJI ($7 billion).

We seek your decision on the broad outlines of a proposal--rather than on a final proposal--because close consultation with key members of the Congress should occur before a Presidential message and transmittal of detailed specifications. After consultation, we would seek your approval of a detailed plan.

Despite general skepticism about increased government spending, there is an emerging consensus--cutting across parties and including important members in both the House and the Senate--which could coalesce around a more modest Administration proposal. Developing such a consensus is essential if welfare reform is to move quickly--and to completion--in the 96th Congress. (A short history of our efforts in the 95th Congress is attached at Tab A.)

In addition to taking advantage of potential Congressional consensus in a highly controversial area, there are three other reasons for submitting a welfare reform package in the 96th Congress:

> <u>First</u>, reforming our nation's welfare system through a combined jobs and cash assistance strategy was a major theme of your Presidential campaign and one of the Administration's first major domestic initiatives. Although we are entering a period of budget stringency and cutbacks, it is essential to protect the well-being of the poor, whose needs are greatest but whose political influence is often the smallest. To abandon welfare reform would be to abandon the Administration's major commitment to America's poor and abdicate our important leadership role in Congressional deliberations.

Second, faced with mounting pressures to cut local taxes, State and local governments will be taking steps themselves to change the shape of their welfare programs. In the absence of strong leadership from Washington, those changes may further confuse and complicate welfare nationally and make any future rationalization of the system more difficult. By contrast, the changes in either Option are a good foundation for future reforms in the direction of PBJI.

Third, we have already achieved major elements of reform in the 95th Congress that support our approach to welfare reform:

-- the expanded EITC contained in the tax bill provides needed although still insufficient assistance to the working poor;

-- the new targeted job and expanded WIN tax credits should facilitate private sector employment of certain categories of the structurally unemployed, although the exclusion from eligibility of many heads of low-income families is a serious inequity we should seek to rectify; and

-- the major new structural employment and training program established as Title II of the reauthorized CETA program can provide the conceptual and administrative framework for the employment component of welfare reform as well as some portion of the required resources. If funds for welfare reform are limited, we should move forward quickly to channel a substantial portion of the new CETA Title II resources to support welfare reform before they are committed to other objectives.

The remainder of this memorandum contains:

o a description of the two options presented here for your consideration, using PBJI as a standard of comparison;

o details on the costs of the options and a discussion of budget margins;

o a discussion of a "two-bill" legislative strategy; and

o a section containing our recommendations and setting forth the decisions required at this time.

II. THE TWO OPTIONS DESCRIBED

Option A in Brief ($10.5 billion in FY 1982)

This proposal is very similar to the welfare reform proposal made by the New Coalition in June, 1978.

It would greatly increase employment opportunities for the low income population, providing a job or training opportunity for all families eligible for cash assistance. Unlike the New Coalition proposal, however, many of the job and training opportunities would be in the private sector, and more emphasis would be placed on training in the CETA component to maximize transitions to the private sector.

The administration of Aid to Families with Dependent Children (AFDC) and Food Stamps would be greatly simplified and made more efficient. The aged, blind, and disabled would no longer have to apply for and use Food Stamps, since Food Stamps would be cashed out for recipients of Supplemental Security Income (SSI).

AFDC benefits in the lowest-paying States would be raised to a uniform national minimum benefit level, increasing adequacy and reducing interstate variations. Two-parent families in all States would be eligible for temporary cash aid while waiting for job opportunities, or if jobs were not available. But, for those families whose head is expected to work, support would come typically from wages, Food Stamps, and expanded EITC benefits.

Fiscal relief of about $1.9 billion would be provided State and local governments.

Option B in Brief ($7 Billion in FY 1982)

The cash portion of this proposal is nearly identical to Option A except that fiscal relief has been reduced to about $900 million, the EITC has been reduced, and Food Stamps have been cashed out at a lower level for SSI recipients. The jobs and training proposals are estimated to provide an equivalent number of slots as Option A but would accomplish this in part through a retargeting of current CETA slots to AFDC family heads and away from other low-income persons. This would shift about $1 billion of existing CETA funds to support welfare reform purposes.

A. Income Assistance

1. Program Consolidation

- Both options would cash-out Food Stamp benefits for SSI recipients. This would improve the adequacy of benefits for many SSI recipients since only about half of those eligible participate in the Food

Stamp program. It would also eliminate the need for SSI recipients to travel to a different office for their Food Stamps. (AFDC and Food Stamps are already administered by the same office.)

- o Aside from cashing out Food Stamps for SSI recipients, both options would leave the AFDC, Food Stamp, and SSI programs in place rather than combining them into a new Federal cash assistance program as PBJI would have done.

- o To improve efficiency, both options would also move towards greater uniformity in the administration of AFDC and Food Stamps, including adoption of common definitions of income and assets and parallel regulation procedures.

2. <u>Program Simplifications to Reduce Error and Fraud and to Improve Program Administration</u>

Both options would <u>eliminate itemized work expenses</u> in the determination of a family's AFDC benefit and <u>introduce retrospective accounting</u> (basing the benefit on the past month's actual income) and <u>more frequent income reporting</u>. These changes would simplify the determination of AFDC benefits and reduce overpayments due to error and fraud. PBJI would have effected these needed reforms within the context of a more Federalized system.

An important aspect of our ability to move either option through the Congress will be a concrete demonstration that we are reducing fraud, abuse, and error to a minimum. A number of important efforts in that direction are already underway. For example:

- o Project MATCH has already identified thousands of ineligible AFDC recipients on Federal payrolls and is being expanded further;

- o We have established a Welfare Management Institute to facilitate the sharing of management techniques among States; and

- o A National Recipient System, once operational, will permit us to cross-check between State AFDC records and Federal payment records.

- o Since the SSI Program was established in 1974, the error rate has dropped from 11.5% to 4.6% primarily because of management emphasis on the principal causes of error and expansion of automated cross checking with other Federal payment systems.

- o The Food Stamp Act of 1977 included several measures which will reduce error and fraud in that program, including standardization of work expenses and other deductions, new incentives for States to undertake anti-fraud activities, and increased penalties for fraud and mismanagement.

Changes we would be proposing in AFDC as part of both of the options would, as noted, include:

- o standardization of the treatment of work expenses;
- o requiring States to base payments on the recipients' actual income in the prior month rather than the anticipated income in a future month;
- o requiring recipients to report their incomes more frequently;
- o conforming income and asset definitions in AFDC and Food Stamps; and
- o negotiating State administrative budgets in advance.

These changes are expected to save about $220 million in their first full year of operation. (Additional detail on proposed changes can be found at Tab B.) The chances of passing these changes will be enhanced if they are part of a broader package containing improvements in benefit levels.

Both options would also include specific provisions designed to clarify and protect the rights and responsibilities of applicants and recipients. These provisions would cover such areas as the timeliness of agency decisions, the appropriate notification of those decisions, recipients' rights to hearings and appeals, and the privacy of AFDC records.

3. Cash Assistance Coverage

Both options would:

- o continue to cover single-parent families, basically through AFDC and Food Stamps;
- o make able-bodied, two-parent families eligible for AFDC-Unemployed Parent (AFDC-UP) benefits for up to two months while they look for a regular private or public job.
- o offer the principal earner in all families eligible for AFDC a CETA job. An AFDC-UP family would be recertified for cash benefits for subsequent two-month periods only if we are unable to offer that family a job. Once employed, most lower-income two-parent families would receive their income supplementation only through the EITC and Food Stamps;

- o continue SSI for the aged, blind, and disabled;
- o continue Food Stamps as the only Federally-assisted income-tested benefit available to singles and childless couples not eligible for SSI.

PBJI would have provided both income support and income supplementation to all of these groups through a single Federal cash assistance program (plus the EITC for families with children). The Food Stamp program would have been cashed out.

Option A would expand Federal spending on emergency needs by $300 million; Option B would expand it by $200 million. PBJI would have provided States with a $600 million block grant for emergency needs.

4. National Minimum Benefit Levels

SSI and Food Stamp benefit levels would remain unchanged except that, as a replacement for Food Stamps, SSI recipients would receive an additional $20 per month per person in Option A ($15 in Option B). This will bring the national minimum benefits for SSI recipients to 82% of the poverty level for individuals (79% in Option B) and 100% of the poverty level for couples (97% in Option B). PBJI would have increased SSI benefit levels by $31 per month for an individual and $46 for a couple.

For single-parent families (and for AFDC-UP families during their two month job search entitlement) we would establish a national minimum benefit in AFDC and AFDC-UP so that, when combined with Food Stamps, the total level would equal 65% of the poverty level for a family with no other income. The minimum benefit for families with children in PBJI would also have been set at 65% of the poverty level, all in cash.

Singles and childless couples are given no new coverage under either option. (They would have been eligible for a cash basic benefit of $1100 and $2200 respectively under PBJI.) They will remain eligible for Food Stamp benefits which equal $624 (individuals) and $1152 (couples) for recipients with no other income.

5. State Supplementation

Under both options, the Federal government would help finance State AFDC benefit levels that exceed the mandated national minimum. In the case of single-parent families, Federal financial participation would continue up to the poverty level. The same type of upper limit on Federal participation would have applied under PBJI.

Under both options, the Federal government would subsidize State AFDC-UP benefit levels for able-bodied, two-parent families up to 80% of the poverty level (including the Food Stamp benefit). There would have been a similar limit under PBJI.

Under both options, the Federal government would not help finance State supplements to the Federal SSI payment (following current practice). Under PBJI, the Federal government would have subsidized supplements up to the poverty level for aged, blind, and disabled recipients.

6. Benefit Reduction Rates

In both options, for single-parent families, cumulative marginal tax rates (caused by AFDC, Food Stamps, the EITC, and FICA) would average around 65 percent. In other words, if earnings increased by one dollar, take home pay would increase by thirty-five cents. This total approximates the situation under current law for most AFDC families. Under PBJI, the comparable rate would have varied between 51% in the low-benefit States and 71% in the high-benefit States.

In both options, for able-bodied, two-parent families, cumulative marginal tax rates would be approximately 81 percent below $5000 (caused by AFDC-UP, Food Stamps, the EITC, and FICA), and would be approximately 45 percent beyond that (caused by the combined effect of Food Stamps, the EITC, and FICA). The reason for the shift in the reduction rate is the rapid phase-out of AFDC-UP. Beyond about $5000 in earnings, most low-income two-parent families would be eligible for only Food Stamps and the EITC. This avoids high marginal tax rates on working families while also avoiding large increases in the AFDC rolls. Under PBJI, the comparable rates would have been 46% to 53% for two-parent families receiving cash assistance.

For SSI recipients, the marginal rate under both options would remain at about 56%. Under PBJI, it would have varied between 56% in low benefit States to 76% in high benefit States.

7. Medicaid

Both options would leave the structure of Medicaid eligibility determination essentially unchanged. This is possible since these proposals do not alter dramatically the AFDC program (as PBJI would have done). Eligibility for Medicaid would continue to be tied to eligibility for AFDC, except that new AFDC-UP States would not be required to extend Medicaid eligibility to their new AFDC-UP caseloads.

Both options would, however, make access to Medicaid more equitable across States, because the national minimum benefit in AFDC would automatically establish a national minimum eligibility standard for Medicaid recipients. These and other changes in AFDC would increase Federal Medicaid costs by $200-$300 million, but they would also make the eligibility rules for Medicaid much fairer and simpler.

B. Jobs

This component provides a sufficient number of job and training opportunities in the private and public sectors to assure that work and not welfare would be the primary source of income for families with an employable member. Three methods are used -- an expanded private sector job and training initiative; retargeting funds from existing CETA structural programs; and addition of new CETA employment and training positions. As noted, these measures all build on the actions of the 95th Congress, which passed a private sector jobs tax credit, reauthorized the CETA program, and targeted the CETA job and training opportunities on the low-income population.

Both options would provide an additional 620,000 public and private job and training opportunities for those who would be eligible for benefits under the restructured AFDC and AFDC-UP programs. The principal earner in those families (both two-parent and single-parent) would be eligible for a special public service job or training oppportunity after a two month supervised search for an unsubsidized job.

Under Option A, the increase would be achieved by funding an additional 550,000 job and training slots in CETA, and by expanding the targeted job tax credit and other private sector initiatives so as to provide an additional 70,000 jobs in the private sector. Under Option B, the increase would be achieved by funding 462,500 additional CETA slots and by retargeting 87,500 existing CETA slots to AFDC and AFDC-UP eligibles (plus the same private sector initiatives). Under both options, administration of the jobs tax credit and other private sector initiatives as well as the existing WIN work requirement and other functions, would be coordinated in the new job search assistance component.

PBJI would have created an additional 1.25 million full-time and part-time slots. We estimate that this number of jobs would have allowed PBJI to assure a job to every primary earner in a family with children. A smaller number of jobs is needed under these options because the required job search period is increased from five to eight weeks, the family must meet an income and assets test to be eligible, and fewer families will receive cash assistance.

In both options, the wage rate would be the same as we negotiated last year with the Hawkins Subcommittee. It would average about 13% above the minimum wage. The wage level under PBJI would have averaged about 11% above the minimum wage (including State wage supplements).

C. EITC

In order to assist working poor families without increasing reliance on welfare, the EITC would be further expanded.

Since it began in 1975, the EITC benefit has been 10% of earnings up to $4000, phasing out at 10% between $4000 and $8000. The 95th Congress increased the EITC to 10% of earnings up to $5000, phasing out at 12-1/2% between $6000 and $10,000.

Under Option A, the EITC would be expanded further to 17% of earnings up to $6000, phased out at 17% between $6000 and $12,000. In FY 1982, the net cost of this change would be about $3.1 billion. Under Option B, the EITC would be expanded to 11% of earnings to $6000, phasing out at 11% between $6000 and $12,000. In FY 1982, the net cost of this change would be $1.4 billion. (Alternative structures with equivalent net cost are also being considered.)

PBJI would have expanded the EITC to 10% of earnings up to $4000 plus 5% of earnings between $4000 and $9100, phasing out at 10% between $9100 and $15,650. This would have added about $4.8 billion to net 1982 costs including benefits to families not on Federal cash assistance.

D. Fiscal Relief

Both options would provide considerable fiscal relief. State and local welfare costs would decline both because of a higher Federal matching rate in AFDC and because earnings from the new CETA public jobs would reduce the costs of AFDC. The Federal share of AFDC costs would increase from 54.3% under current law to 68.7% under Option A and 61% under Option B. (The Federal share of the mandated minimum benefit would be about 80-85%. The Federal matching rate at the margin for benefit levels above the national minimum would be about 40-45%.) Other changes, such as the national minimum benefit, would increase Federal and State AFDC outlays. To assure all States that they will experience no increase in AFDC costs, a hold harmless provision would be part of the package.

Total fiscal relief to State and local governments is estimated at approximately $1.9 billion in Option A and approximately $1 billion in Option B. Both estimates are for FY 1982. For PBJI, fiscal relief in FY 1982 would have been approximately $2.2 billion.

III. COST SUMMARY

The FY 1982 cost estimates for the two options are presented in the following table. These estimates assume full implementation of the cash and jobs portions of the proposals and show the total obligations incurred for the EITC during FY 1982. These estimates conform to the procedures and assumptions which have been widely accepted by Congress as representing the appropriate basis for measuring net welfare reform program costs. For simplicity, we have presented a "point estimate" of these costs rather than a range of possible costs. Tabs C and D provide details on these estimates, and show the actual ranges involved. Tab D also shows estimates of the Budget impact of these proposals through FY 1984.

Fiscal Year 1982 Cost Summary
(Billions of Dollars)

		Option A		Option B
Cash		3.4		2.1
EITC		3.1		1.4
Jobs (Gross costs)	(6.6)		(5.6)	
(Savings in cash assistance due to jobs)	(-2.4)		(-2.1)	
Net Cost of Jobs		4.2		3.5
Net Cost of Proposal		10.7		7.0
Fiscal Relief (included in above)		1.9		.9

Reasons for difference in Net Federal cost:

Option A Has	Difference in Net Federal Cost
Greater fiscal relief	1.0
Larger EITC	1.7
No retargetting of current CETA slots	.7
Larger cash-out payment to SSI recipients	.3
	$3.7 Billion

V. THE BUDGET MARGIN

The FY 1979 Budget had allocated $8.8 billion for welfare reform in FY 1982. Additionally, $1.3 billion had been allocated to PBJI to rebate revenues to the poor from the proposed Wellhead Tax to offset energy price increases. Thus the budgetary impact of PBJI would have been $10.1 billion in FY 1982 according to the FY 1979 budget. In its present FY 1980 budget drafts, OMB is showing $3-7 billion for welfare reform in FY 1982.

The net impact on the FY 1982 Federal budget assuming full implementation would be $10.6 billion for Option A and $6.9 billion for Option B (slightly less than the $10.7 and $7.0 billion costs mentioned above because $100 million of increased EITC obligations would not be disbursed until FY 1983).

To reduce the impact on the FY 1982 budget, there are several additional phasing alternatives which could be adopted.

- The increase in the EITC is currently assumed to be implemented in both Options A and B on January 1, 1981. This date could be pushed back to January 1, 1982, saving approximately $1.5 billion in FY 1982 for Option A and $600 million for Option B.

- The Employment and Training portion of the proposal is assumed to be fully implemented at the start of FY 1982. The PBJI jobs proposals were only 80% implemented in FY 1982, with full implementation in FY 1983. If we used the same phase-in rate as PBJI, we could save approximately $840 million in FY 1982 for Option A and approximately $700 million for Option B. We would not recommend an implementation rate below 80% for FY 1982 because it is essential to have the job program largely in place when the changes in cash assistance, particularly for two-parent families, are implemented.

- The implementation of the Food Stamp cash-out for SSI recipients could be delayed from October 1, 1981 until January 1, 1982, to coincide with the date at which Food Stamp benefits are altered to account for price changes. This would save approximately $200 million in FY 1982 for Option A and $130 million for Option B.

Thus, the impact of Option A on the FY 1982 budget could vary between $8.1 and $10.6 billion depending on the phasing option chosen. Similarly, the impact of Option B could vary between $5.5 and $6.9 billion. These phasing alternatives are summarized in the following chart:

Phasing Alternatives
(dollars in billions)

	Option A	Option B
FY 1982 Estimate without phasing alternatives	$ 10.6	$ 6.9
Savings from EITC implementation on 1/1/82 (not 1/1/81)	- 1.5	- .6
Savings from fully implementing jobs in FY 1983 (not FY 1982)	- .8	- .7
Savings from implementing SSI cash-out 1/1/82 (not 1/1/81)	- .2	- .1
FY 1982 Estimate assuming adoption of all phasing alternatives:	$ 8.1	$ 5.5

VI. LEGISLATIVE STRATEGY

Whichever option is chosen, we recommend that two separate bills (cash and jobs) be submitted simultaneously as a package. The accompanying message should point out the interrelationships between the two segments and the importance of Congressional approval of both elements. The elements should be submitted as separate bills, however, because this will avoid the issue of a special select committee (which we are not likely to get again), will permit the net costs of the various elements to be separately identified, and will permit the building of separate coalitions for the two bills.

This approach will build systematically on actions taken in the 95th Congress on the EITC and on CETA. It will avoid giving our scaled-down welfare reform effort the appearance of a massive comprehensive welfare reform proposal. While this approach may entail a risk that one of the components may not be enacted, it has the advantage that, if one part does hit a political road block, the other portion can still be enacted.

If you approve either of the Options outlined above, we should proceed immediately to consult with the relevant members of Congress and with representatives from the important interest groups. We should try to get a sense of the possibilities for a consensus bill within two or three weeks.

While anti-inflation legislation like such as wage insurance and hospital cost containment should have precedence in the Ways and Means and Finance Committees, we should, after taking soundings on welfare reform, develop a clear strategy on the timing in those critical committees (as well as in Senate Human Resources and House Education and Labor which will handle the jobs program). One of the reasons that PBJI, or a scaled down version of PBJI, failed to pass in the 95th Congress was that it was bumped from the legislative calendar by other Administration priorities.

VII. SUMMARY

Both of the options described in this memorandum would make substantial improvements towards the goals set forward in PBJI. In particular, both options would:

- o increase work effort in the welfare population (Option B would do this in part by decreasing other CETA resources);
- o place primary reliance on the provision of employment and training opportunities as a method of assisting the employable poor to maintain incomes of families whose primary worker cannot find a job;
- o provide greater assistance to working poor families without increasing reliance on welfare by expanding the EITC (Option A would make a larger expansion);
- o improve the adequacy and fairness of the welfare system by raising benefit levels in the low-payment States and mandating coverage of two-parent families;
- o simplify the welfare system, increase efficiency, and reduce error and fraud;
- o reduce duplication of programs by cashing out Food Stamp benefits for SSI recipients (Option A would do this at a level closer to current Food Stamp benefits); and
- o provide fiscal relief to State and local governments (Option A would provide more).

VIII. DECISIONS

A. Approach.

Adopt an incremental approach and send an Administration proposal to the 96th Congress.

__________ Approve(recommended)

__________ Disapprove

B. Cost.

Negotiations should take place based on a FY 1982 Budget target of:

__________ $10.5 billion(recommended)

__________ $ 7 billion

__________ Other

C. Authorization to Proceed

On the basis of these decisions, proceed with consultations with all interested parties to prepare a coalition of support in the next Congress.

__________ Approve (recommended)

__________ Disapprove

Tab A

BRIEF HISTORY OF WELFARE REFORM IN THE 95TH CONGRESS

- In August 1977 the Program for Better Jobs and Income was announced. In September it was introduced in the House (as H.R. 9030) by Congressman Corman and in the Senate (as S.2084) by Senator Moynihan. Hearings were held in Washington and around the country in the fall of 1977 by the House Special Welfare Reform Subcommittee. Mark-up began in December 1977.

- In February of this year, the Special Welfare Reform Subcommittee headed by Corman — who championed the Administration bill and exhibited great energy and persistence in steering it through the Subcommittee — reported out your proposal with a number of significant changes, but essentially intact as a comprehensive welfare reform bill. One of the important changes worked out in negotiations with Representative Hawkins of the Education and Labor Committee and AFL/CIO representatives was to set average and maximum wage rates that varied with local wage levels. This change which increased average wage rates by about 2% represents an acceptable compromise. The Subcommittee did make changes in two areas: (1) it permitted States to raise both benefit levels and benefit reduction rates for expected-to-work (mostly two-parent) families, thus substantially reducing work incentive elements in the bill, and (2) it provided that the SSI program would continue to be administered by the Social Security Administration, outside of the consolidated cash structure of PBJI.

- The Subcommittee reported out the bill (H.R. 10950), however, only after narrowly rejecting an alternate proposal introduced by Congressman Ullman in February. The Ullman proposal, while retaining the existing welfare programs and thus being "incremental," contained many of the substantive elements of PBJI.

- Also in February, Senators Baker, Bellmon, Ribicoff, Danforth, and Young introduced their own incremental proposal. Their proposal included many of the major substantive elements of PBJI -- a national minimum benefit, cash coverage of two-parent families, a public service jobs program (although much smaller than PBJI), and an expanded earned income tax credit (EITC) — although it relied much more heavily on employment subsidies than the Administration's proposal.

- At an April meeting with Congressional leaders, the President urged all parties to explore the possibility of agreeing on a bill that would contain substantial reform and that could be enacted this year. Intensive staff discussions followed between representatives of HEW, DOL, and EOP staff and Corman's and Ullman's staffs.

- Progress occurred in May when Representative Ullman publicly challenged the New Coalition to develop a compromise proposal -- a challenge that was seconded by Representative Corman. The New Coalition responded by developing specifications for a compromise — specifications that in general were compatible with our own ideas of what a reasonable compromise might look like. Secretaries Califano and Marshall and Stu Eizenstat then met with Governor Dukakis and Congressional leaders and agreed to seek to negotiate a compromise bill, using the New Coalition specifications as a starting point.

- Intensive staff negotiations took place in June, and considerable progress was made in bridging the differences among the parties — particularly between Ullman and Corman. On June 27, the Speaker announced — after consulting Senator Byrd and Representatives Corman and Ullman — that the legislative calender would not permit consideration or enactment of major welfare reform legislation this year. The staff discussions ceased.

- In late June, Senators Moynihan, Cranston, and Long announced a "no frills" welfare bill that would have (a) provided about $2 billion of fiscal relief, out of a total outlay of about $5 billion; (b) expanded the EITC; (c) provided for an employment tax credit targeted on AFDC recipients; and (d) turned AFDC into a block grant program. The block grant/large fiscal relief provisions were withdrawn after opposition from the Administration, liberal groups, and State and local groups. The Finance Committee added to the tax bill $400 million of fiscal relief for FY 79. This was later defeated on the Senate floor. As noted in the text, an expanded EITC was enacted as part of the tax bill, as was a targeted employment tax credit.

- In mid-September, Senator Kennedy introduced a welfare reform proposal partly in response to the Moynihan/Cranston/Long proposal. Kennedy's bill represents a combination of provisions which resemble the New Coalition proposal and provisions which resemble the Baker/Bellmon/Ribicoff/Danforth bill. It would institute a national minimum benefit in AFDC, mandate AFDC coverage of two-parent families, expand the EITC, provide fiscal relief through the AFDC program, and move toward coordination of AFDC and Food Stamp definitions and procedures. It would not provide additional PSE jobs for this population (although the accompanying remarks make a strong statement in favor of PSE expansion) and would result in high tax rates for AFDC recipients. The Kennedy bill would add about $7B to Federal cost. Stu Eizenstat sent Senator Kennedy a letter welcoming his decision to join the effort to enact welfare reform and, in particular, his intention to work with the Administration to achieve enactment next session of a substantial welfare reform package.

TAB

A

TAB

B

PROGRAM SIMPLIFICATIONS TO REDUCE FRAUD AND ERROR AND TO IMPROVE PROGRAM ADMINISTRATION

Changes proposed for the administration of the AFDC program are aimed at simplifying the eligibility and benefit determination process and at increased Federal review of State administrative expense plans.

The program changes which simplify the determination process are:

Standardization of the treatment of work expenses - At present, the Federal law requires that expenses reasonably attributable to the earning of income shall be disregarded in the determination of assistance payments. States, in applying this provision, may either establish a fixed amount to be deducted from earnings for work expenses or may make individual determinations as to what work expenses are allowable. Such individual determinations are prone to error, both in terms of mistakes in establishing the correct amounts for the disregard and in unreported changes in that amount. By establishing a single fixed amount as a disregard from earnings to represent the costs incident to working, the determination process is made simpler and the potential for error is substantially reduced. According to the latest data available, about $5 million annually is included erroneously in assistance payments owing to misapplication of the States' work expense rules. In addition, the application of the present State rules, where individual development of work expenses is needed, requires substantial eligibility technician training and time. Because this change in the welfare system can be quickly implemented, we have included a very similar proposal in our FY 80 budget submission.

Prior Month Budgeting for Assistance Payments - The welfare reform proposal would require that States base assistance payments on income received in a prior month (i.e., actual income), rather than upon income anticipated in the month for which the payment is made. At present, most States make their assistance payments calculated on the basis of anticipated income. In any month where the anticipated income is not realized or where the income is greater than expected, the payment made will be in error. This is true even with a perfect income reporting system. Basing assistance payments upon income received in a previous month will allow the use of known and verifiable income rather than an estimate in establishing the payment amount. For those whose income is stable, the use of prior month budgeting has no effect on payments. For those whose income changes, it has the effect of responding to those changes.

Periodic Reporting - At present, in most States, recipients are required to report changes in income, family composition, or other circumstances affecting eligibility and payment when they occur. In addition, semi-annual redeterminations are required by the agency. The proposed change in the AFDC program would require that recipients report incomes and other factors affecting eligibility on a regular basis as a condition for receiving assistance. This would assure that the assistance payments were based upon current information, and that a regular, systematic method was followed for assuring that the recipients' responsibility to report changes was being met.

Conforming Income and Asset Definitions in AFDC and Food Stamps - Under the AFDC program, States may establish resource limitations, define resources and income, and establish valuation practices, within broad Federal limits. These vary widely among the States. Under the recently enacted Food Stamp amendments, Federal resource limits are established at $1750 for a household, or $3000 for a household where a member is 60 years of age or older, subject to prescribed exclusions for homes, vehicles, and other specified resources. The two separate provisions are applied in individual determinations by the same State agency, often for the same families. The proposal would establish national resource standards for AFDC, and provide for income and asset definitions which conform to those presently established in the Food Stamp legislation. Not only will this provide consistent nationwide standards for resources and for determining income and resource eligibility under the AFDC and Food Stamp programs, but it will also simplify administration and reduce the potential for error as workers determine eligibility by giving them a single set of definitions and resource standards.

Prospective Budgeting for State Administrative Costs - Under present law, States are reimbursed for the Federal share of funds expended for the proper and efficient administration of the AFDC program. Basically, the only Federal review of State administrative costs is to determine whether they are allowable for Federal participation. In no case does the efficiency of the State operations or the application of cost standards enter into the process. A prospective budget system would require the presentation and justification of anticipated costs of administering the AFDC programs. States would be required to estimate administrative costs by workload functions and objects of expenditure, which would be reviewed and used as the basis for negotiating an administrative cost budget with the State. This would allow the inclusion of administrative cost as a factor in evaluating State performance, and would provide for prior agreement on levels of expenditure for program administration.

TAB

C

WELFARE REFORM COSTS: HOW AND WHY THEY DIFFER

When the Program for Better Jobs and Income was announced in August, 1977, we stated that its impact on the Budget in FY 78 would be +$2.8 billion. That is, gross outlays minus offsets would equal $2.8 billion. Over the last year there have been a number of other cost estimates for PBJI (H.R. 9030), most of which have been for fiscal year 1982. We did not present cost estimates for FY 82, the anticipated first year of implementation, until the FY 79 Budget was released in January, 1978. In August, 1977, we simply had not had time to prepare such estimates, and the focus of work through the spring and summer had been on net costs in FY 78. This paper attempts to explain, very generally, the reasons why the estimates differ, focusing on the major non-technical reasons.*

The elements that make up a cost estimate are (1) gross outlays or expenditures, or the total costs of the program; (2) offsets, or the funds to finance the gross outlays of the proposal; and (3) net costs, or the difference between gross outlays and offsets.

- Gross outlays or expenditures. In a program such as PBJI, that covers new populations, consolidates existing programs, and adds a new public service jobs program, projecting such costs is a complex and difficult undertaking. We projected FY 78 gross outlays to be $31.08 billion. This estimate was never seriously challenged. As a result of considerable further analysis, and consultations with Hill, State and local government, CBO, and other experts, we now believe that gross outlays were overestimated by about $1 billion.

Two outlay items were questioned:

— We included in the gross outlays only that portion of EITC costs that went to cash assistance recipients ($1.5 billion). The remainder ($3.0 billion), we argued, was a desirable expenditure, and would have to be funded, but should not be counted in the costs of welfare reform. Most observers did not agree and, therefore, added $3.0 billion to the cost of the proposal.

-- We assumed an unemployment rate of 5.5% for planning purposes, since that was the official Administration projection for the initial years of implementation. It was argued in some quarters that unemployment would not be that low and that, accordingly, costs would be higher, particularly for the PSE jobs part of the program.

---

* Attached to this paper is the chart ("Balance Sheet") that displays the Outlays and Offsets for PBJI in FY78. This was widely circulated.

o Offsets. In this area, great disagreement and controversy arose, virtually all of it around four items that total $7.9 billion in FY 78 dollars:

(1) CETA Jobs—we argued that the existence of the up to 1.4 million job and training slots contained in H.R. 9030 would make it possible to phase out $5.5 billion of countercyclical CETA expenditures. Accordingly, this $5.5 billion could be taken as an offset. Very few persons or groups agreed, arguing that "PSE job funding is never cut." It was also argued that, since H.R. 9030 contained no legislative language providing for the CETA phase-down, it could not be counted. In retrospect, the CETA offset probably was valid, but not the full $5.5 billion. In your FY 79 Budget, the Administration, for the first time, provided its CETA phase-down plan. At that time we argued that the offset should be $3.9 billion in FY 82.

(2) Extended Unemployment Insurance—since PBJI would provide employment opportunities for the long-term unemployed, we argued that the extended UI program could be altered, (by a change in the triggering device), resulting in a savings of $700 million. Since legislation to effect this change was never submitted, we never received credit for the extended UI offset.

(3) Wellhead Tax—the Administration's energy package included rebates to taxpayers to offset some of the anticipated energy price increase. In order to ensure that the low-income population received similar relief, $1.3 billion was set aside for it. We decided that it was sound policy to rebate this money through the PBJI system and, accordingly, counted the $1.3 billion among the funding sources for H.R. 9030. At the time we acknowledged that if the crude oil equalization tax was not enacted, we would need to add $1.3 billion to the cost of the program.

(4) Fraud Control Savings—HEW projected outlay reductions of $400 million resulting from Medicaid fraud control and elected to associate these with welfare reform, in order to reduce its net impact on the Budget.

The essence of the cost issue can be seen by comparing two estimates of PBJI — the Administration's $2.8 billion in FY 1978 dollars and the Congressional Budget Office's $19.1 billion in 1982 dollars. (Following this comparison, a few other estimates will be noted, in order to complete the picture. In these comparisons, no attempt at perfect resolution is made, as this would require detailed explanations of the different data bases, assumptions, and accounting conventions used.)

(1) $2.8 billion, presented by the Administration in August 1977, as the net Federal cost of a fully implemented PBJI in FY 78.

If one adds to this the disputed offsets ($7.9 billion) and that part of EITC costs that go to non-recipients of cash assistance ($3 billion), FY 78 net cost would be $13.7 billion.

(2) $19.1 billion, presented by the CBO in December 1977 (and revised thereafter) as the net Federal cost of a fully implemented PBJI in FY 82. This estimate included the full cost of the EITC and did not use the four disputed offsets. In addition, the following factors (among others) contribute to the difference.

— inflation between 1978 and 1982

— minimum wage increase

— population growth

— real economic growth (which partially offsets the above items)

Thus, the differences between Administration and CBO costs of PBJI reflect:

- different years

- CBO not adopting Administration offsets, valued in FY 78 at $7.9 billion, and counting the entire EITC, costing $3 billion

- real policy changes by the Administration, e.g., minimum wage increase

Administration and CBO outlay estimates have always been remarkably close, with a number of offsetting differences. The CBO priced the Corman Subcommittee's marked-up version of PBJI (H.R. 10950) at $20.5 billion. This figure has frequently been cited as the cost of the Administration proposal.

There are two other important cost estimates for PBJI. The first is contained in the FY 79 Budget. This was the first official Administration estimate of PBJI cost for FY 82: $8.77 billion. This estimate: (1) employed the disputed offsets; (2) counted the entire EITC cost, but on a funds paid out basis which decreased the impact of the larger EITC in its first year of implementation; and (3) presented costs of the jobs program on a partial implementation basis; all other estimates were on a full implementation basis. Thus, the $8.77 billion FY 82 cost estimate is not comparable to any of the others and has been virtually ignored. It was important because it set a budget margin for welfare reform in FY 82.

The other important cost estimate is that presented by HEW in March, 1978: $9.1 billion for FY 82. This estimate: (1) continued to employ the disputed offsets; (2) did not include the cost of EITC benefits to non-recipients of cash assistance; and (3) presented costs on a full implementation basis. If the disputed offsets ($6.3 billion in FY 82) and the cost of EITC benefits to non-recipients of cash assistance ($3.8 billion in FY 82), are added to the $9.1 billion estimate, the result is virtually identical to the CBO estimate of PBJI cost for FY 82 (9.1 + 6.3 + 3.8 = 19.2).

To complete the picture, the cost estimates for the major incremental welfare reform packages: (1) are for FY 82; (2) include costs of EITC benefits going to non-recipients of cash assistance; (3) reflect none of the disputed offsets; and (4) reflect full implementation of the jobs program. Thus, the cost estimates of $10.7 billion and $7.0 billion for Options A and B described in this memo are comparable in terms of methodology to the $19.1 billion estimate for PBJI. The attached chart compares the estimates in terms of their salient features.

BALANCE SHEET

(1978 Dollars)

Gross Costs	
Employment Programs	8.8 billion
Cash assistance	20.2
EITC	1.5
Emergency Assistance Block Grant	.6
	$31.1 billion

Offsets	
AFDC	$6.4 billion
SSI	5.7
Food Stamps	5.5
EITC	1.1
Extended UI	.7
CETA Stimulus	5.5
WIN	.4
Increased FICA Tax Receipts	.7
Decreased UI Outlays	.3
Decreased HUD Outlays	.3
Fraud Control Savings	.4
Wellhead Tax	1.3
	$28.3 billion

NET FEDERAL COST: $2.8 billion

* EITC costs above tax entry point: $3.0 billion

COST ESTIMATE TABLE

	YEAR	OFFSETS	PARTIAL OR FULL IMPLEMENTATION	PART OR ENTIRE EITC	NET COST
PBJI					
Administration - August 1977	FY 78	Use Disputed Offsets	Full Implementation	Part EITC	$2.8B
CBO - December 1977	FY 82	Do Not Use	Full Implementation	Full EITC	$19.1B
Administration - Budget, January 1978	FY 82	Use Disputed Offsets	Partial Implementation	Full EITC	$8.77B
Administration - March 1978	FY 82	Use Disputed Offsets	Full Implementation	Part EITC	$9.1B
Option A and Option B	FY 82	Do Not Use	Full Implementation	Full EITC	$10.7B(Option A) $ 7.0B(Option B)

TAB

D

Details of Cost Estimates

Attached are two cost summary sheets describing the net Federal costs of the two proposals.

The first sheet presents gross and net Federal costs, including offsets, in the manner usually employed by the Administration, CBO, and Congressional committees - net accrued liabilities assuming full implementation. These represent the obligations actually incurred in any given year but do not necessarily represent payouts or disbursements due to floats or lags between the commitment of funds and actual payment. The year chosen, FY 82, would be the first year of full implementation of all parts of the proposal.

This is the appropriate measure for making budgetary decisions because it reflects the full increase in Federal commitments and because it permits the appropriate portrayal of the net cost of each component.

The second table gives the details of the cash component of the proposal. The third table shows the details on both the gross costs and the net costs of the jobs program.

The fourth table presents net Federal costs as they would be presented as part of the Federal budget - net increase in disbursements actually made in each fiscal year. Net Federal costs are shown for fiscal years 1980-1984. Costs are divided according to the source of increased outlays. Thus, for examples, the savings in cash assistance due to the jobs program are reflected in a lower cost of cash assistance. As the third table shows, the actual net cost of the jobs program in FY82 would be only $4.2 billion for Option A and $3.5 billion for Option B.

The first and third tables show a different net Federal cost for FY 82 because a large fraction of EITC benefits are not paid out until tax returns are filed the following year. Thus, an increase in EITC benefits does not immediately cause a corresponding increase in EITC disbursements.

As a result, net costs are always somewhat higher using the "net accrued liabilities assuming full implementation" method.

Summary of Federal Cost by Program in FY 1982
(dollars in billions)

		Option A		Option B	
	Current Law	Gross Costs	Net Change	Gross Costs	Net Change
AFDC	7.6	8.19 to 8.88	.59 to 1.28	7.48 to 8.09	-.12 to .49
SSI	6.8	8.0	1.2	7.7	.9
Food Stamps	6.3	5.50 to 5.41	-.80 to -.89	5.50 to 5.41	-.80 to -.89
EITC	1.8	4.9	3.1	3.2	1.4
Emergency Needs	-	.3	.3	.2	.2
Jobs	-	6.6	6.6	5.6	5.6
FICA	-	-.5	-.5	-.4	-.4
Regular UI	-	-.2	-.2	-.1	-.1
Housing Asst.	-	-.1	-.1	-.1	-.1
Medicaid	-	.05 to .27	.05 to .27	.05 to .27	.05 to .27
Totals	22.5	32.74 to 33.56	10.24 to 11.06	29.13 to 29.87	6.63 to 7.37
(Fiscal Relief)		(1.67 to 2.16)		(.57 to 1.14)	

Details on Net Federal Cash Costs in FY 1982

	Option A	Option B
AFDC		
1. National Minimum at 65% poverty	.24	.21
2. Administrative Improvements		
Standardized Disregard	.1 to .21	.09 to .18
Conformance of AFDC and Food Stamp income & asset roles	.07 to .21	.06 to .18
Savings from monthly retrospective accounting and periodic reporting	-.07 to -.21	-.06 to -.18
3. Eligibility to the breakeven	.21 to .41	.18 to .37
4. Mandating the Unemployment Parent Program	.07 to .17	.06 to .15
5. Increased AFDC Matching Rate	1.83	.85
6. Savings due to jobs program	-1.34*	-1.19*
7. Savings due to EITC expansion	- .38	- .2
Total AFDC	.59 to 1.28	-.12 to .49
SSI		
8. Cash-out of Food Stamps	1.2	.9
Food Stamps		
9. Decrease due to jobs program	-.25	-.25
10. Decrease due to cash expansion	-.15 to -.24	-.15 to -.24
11. Savings from SSI cash-out	-.4	-.4
Total Food Stamps	-.80 to -.89	-.80 to -.89

* These savings from the jobs program would only be realized if the jobs program were fully implemented in FY 1982. See the table on page 10 for the gross costs of all cash changes without the savings due to jobs.

Details on the Costs of the Jobs Program
(FY 1982 dollars in billions)

	Option A	Option B
Wages for new CETA slots	4.49	3.78
Overhead for new CETA slots	1.35	1.13
General Administration	.15	.15
Private Sector initiatives	.50	.50
Direct wage savings from conversion of higher wage CETA Title II slots for AFDC recipients	0.00	- .08
Expansion of training resources	.10	.10
Gross Costs of Jobs Program	6.59	5.58
Indirect Offsets:		
Savings in AFDC	- 1.34	- 1.19
Savings in Food Stamps	- .25	- .25
Savings in Regular Unemployment Insurance	- .17	- .12
Savings in Housing Assistance	- .10	- .10
Increase in FICA revenues	- .52	- .45
Net Costs of Jobs Program	4.21	3.47

Jobs Program Elements

	Option A	Option B
New CETA Jobs	550,000	462,500
Retargeted CETA Jobs	-0-	87,500
New Private Sector Jobs	70,000	70,000

"Net Increase in Disbursements Actually Made in Each Fiscal Year"

Option A	FY80	FY81	FY82	FY83	FY84
Cash	0.0	-1.4	.54 to 1.36	.56 to 1.41	.58 to 1.47
Jobs*	0.0	4.1	6.6	7.0	7.5
EITC Expansion**	0.0	1.4	3.0	3.25	3.4
Net costs	0.0	4.1	10.14 to 10.96	10.81 to 11.66	11.48 to 12.37

Option B					
Cash	0.0	-1.0	-.37 to .37	-.38 to .38	-.40 to .40
Jobs*	0.0	3.6	5.6	5.9	6.2
EITC Expansion**	0.0	.6	1.3	1.5	1.6
Net costs	0.0	3.2	6.53 to 7.27	7.02 to 7.78	7.40 to 8.20

Implementation Assumptions

- Cash assumed to be revised as of October 1, 1981.
- CETA jobs are phased in: 60% in FY81 and 100% in FY82.
- EITC revised as of January 1, 1981.
- Savings from simplification and management initiatives not reflected in these numbers.

---

* The CETA wage is assumed to increase by 6 2/3% at the start of each calendar year beginning on January 1, 1982. The effect is a 5% increase in total wage costs in FY 1982 and a full 6 2/3% increase in wage costs in FY 1983 and FY 1984.

** Shown on disbursement basis. A large fraction of the costs of any EITC change in a given year not are not disbursed until tax settlement the following year, even with disbursement through the withholding system.

~~CONFIDENTIAL~~

THE SECRETARY OF THE TREASURY
WASHINGTON

1

December 22, 1978

MEMORANDUM TO THE PRESIDENT

Subject: Chinese Financial Movements

Since your announcement last Friday night, the Bank of China (Taiwan) has transferred its account with the Federal Reserve (approximately $430 million) into private banks. There are hints from private banking sources that they may be purchasing some gold, and we assume that they are moving the bulk of their holdings into the Euro-dollar market as they have done before when their status became particularly uncertain. We have no evidence that they are diversifying out of dollars into other currencies.

Mike

W. Michael Blumenthal

~~CONFIDENTIAL~~

C

THE WHITE HOUSE

WASHINGTON

December 23, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT

SUBJECT: Solvent Refined Coal Demonstration Plant

The real issue raised in Jim McIntyre's memorandum is whether we should make a decision now to go forward with only SRC-I or SRC-II -- or withhold that decision until the conceptual design work is finished.

DOE would like both built, SRC-I to convert coal into a clean solid fuel and SRC-II to convert coal into a liquid fuel.

Last year, OMB agreed to construction of SRC-II which has expected contributions of 25% each toward construction cost from the West Germans and the Japanese and 25% cost sharing from industry. At this point there is no foreign participation for the SRC-I plant. Each plant has a total estimated cost of $700 million.

In January of this year $23 million was included in our FY'79 budget for the design of one demonstration plant -- either SRC-I or SRC-II -- with the understanding that a comparison would be made between the benefits and disadvantages of each prior to the selection of one.

In May of 1978, in the Administration's supply initiatives package, the commitment was potentially broadened. The Administration's statement, with OMB concurrence, indicated that DOE would proceed with detailed design for two plants and in FY'80 would move to the procurement and construction phases "for one or two plants".

In October of this year, the FY'79 Interior Appropriations bill included $70 million in unrequested construction funds for two SRC plants with the understanding that no funds would be obligated for construction or procurement until Congress reviewed the "proposed cost-sharing agreements" for SRC-I and SRC-II.

Secretary Schlesinger was willing to accept the compromise mentioned in Jim McIntyre's memorandum if the option was left open to fund both plants after the conceptual design work, not yet finished, indicated that this was merited.

My indications have been that DOE, during the last session of Congress, strongly implied to key Congressional leaders that both would be built. Senators Ford and Huddleston are strong advocates of SRC-I, which would be built in their state.

I am concerned that we will end up inevitably with both of these plants if we do not indicate now that while we will go through the conceptual design work to determine which of the two plants should be built -- expressing no preference between them at this point -- we do not intend to build both. We feel that both are not needed because:

-- SRC-I and SRC-II are very similar for 75-80% of the process. Given the tight budgets which we will have this year and next there is no reason to demonstrate both technologies at such a high cost with so much duplication.

-- There is a small pilot plant already working in the state of Washington which can continue to work on those aspects of SRC-I which are different than SRC-II.

-- There is not a large market as yet for the products of SRC-I nor have foreign participants been identified.

-- There are other types of coal conversion technologies which we may want to demonstrate in the future. Spending so much money for two substantially similar plants might constrain our ability for technology in the future.

For this reason I support the OMB recommendation that $58 million be shown in the budget for one plant to be selected later under the conditions outlined in

Jim McIntyre's memorandum, awaiting the completion of the design work to decide which of the two should be chosen. (This is the second option in his decision memorandum.)

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. McINTYRE, Jr. Jim

SUBJECT: Open Item from DOE Appeal: Solvent Refined Coal (SRC) Demonstration plant

As you know from the issue paper on this subject prepared for yesterday's appeal session, DOE has appealed for $58 million in FY 1980 to initiate construction of a $700 million SRC-I demonstration plant. The facility would be located in Kentucky and would produce a solid clean boiler fuel from coal. The SRC-II plant, for which we have allowed FY 1980 construction funding, would be located in West Virginia and would produce a liquid fuel for use both in boilers and as a feedstock. I am increasingly convinced that it would be a mistake for the government to build both facilities. It is fair to say, I think, that DOE is alone in its view that both processes should be demonstrated.

The one vulnerable aspect of an FY 1980 Budget decision to build only the SRC-II plant is its inconsistency with our May 1978 statement that a construction decision would be made only after preliminary plant designs for the competing projects had been submitted and analyzed (scheduled for July 1979). In fact, three corporate partners in the SRC-I venture--Wheelabrator-Frye, Air Products and Southern Services--have told us that all they want is a chance to compete, a "fair shot." In response to a direct question, they have said that if a decision is made next summer, after objective analysis of the competing proposals, to build only one plant and if SRC-II is selected, they will not take their fight to the Congress. Of course, their willingness to concede would in no way bind the Kentucky Congressional delegation, who would want a plant built in their State regardless of the industrial partners' concession, but it would significantly narrow the issue and the base of support for SRC-I. Under such circumstances, and because there is not strong support in the House for two plants, there is a reasonable chance that we could hold the line.

Jim Schlesinger's strongest argument for going ahead with both SRC-I and SRC-II is that Senator Byrd has promised Senators Ford and Huddleston that both plants will be built and that the three of them have been led to believe--contrary to the President's express decision last spring--that the Administration shares that commitment. Frank Moore agreed that Byrd, Ford and Huddleston probably perceive that to be the case, but he was not sure of the basis for it.

At yesterday's appeals session, therefore, we offered Secretary Schlesinger the following compromise: We would include funding in the Budget at the $58 million level for one SRC plant, without indicating I or II, and we would state that a choice between the competing facilities would be made in the summer after the design proposals and market studies had been submitted and reviewed. We conditioned this proposal in three ways:

(1) We would take the position from the outset that the Administration would support demonstration of only one process, not both.

(2) The final decision between SRC-I and SRC-II would be made by the President, with advice from DOE and his advisors.

(3) The industrial partners in SRC-I must give us their commitment to accept the decision.

Secretary Schlesinger was willing to accept the compromise if the door was left open for funding two plants. I cannot support a compromise on that basis; we cannot afford two plants, and two plants are unnecessary.

DECISION

______ Include $25M in the Budget for SRC-II only (OMB second preference)

__✓__ Include $58M in the Budget for one plant to be selected later, if above conditions are met (OMB recommendation)

______ Include $58M in the Budget for one or two plants to be selected later (DOE second preference)

______ Include $83M in the Budget for both SRC-I and SRC-II (DOE recommendation)

THE WHITE HOUSE

WASHINGTON

December 28, 1978

C

MEMORANDUM TO: THE PRESIDENT

FROM: Frank Press FP

SUBJECT: FY80 Research Budget

The following describes how your instructions for the research budget were carried out.

I have worked closely with Jim McIntyre in formulating the FY80 research budget. In a tight budget year we have managed to do well by basic research, 9% increase in TOA and 9.9% increase in outlays. Thus your basic research initiatives will continue for a second year. R and D (as distinct from basic research) will rise less rapidly this year compared to last year (increases of 6.4% in TOA and 6.0% in outlays). This reflects not only a tight budget but a dearth of proposals for technological development and demonstration in the civil sector which meet our criteria for government support.

Your basic research initiative has stimulated similar programs in France, Germany and now Great Britain ~~(see enclosure),~~ thus multiplying the effect of U.S. research dollars.

C

12/28/78

Mr. President --

Jody, Hodding and I talked last night about the ABC human rights report. We agreed that, if asked, Hodding will say at his briefing that it was a naive and unsophisticated approach to the issue of human rights, and serves as an example of the difficulties television can experience in dealing with complicated questions. He will, of course, reiterate and defend specifics of the policy and its implementation.

We felt that to do something stronger would just draw more attention to the original report. It was up against two movies that should have been popular -- "Car Wash" and "Les Miserables" -- and should not have drawn well, distorted as it was.

Rex

THE WHITE HOUSE
WASHINGTON

12/29/78

Stu Eizenstat
Jack Watson

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

re New York City

THE WHITE HOUSE
WASHINGTON

12/29/78

Stu Eizenstat
Jack Watson

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

THE WHITE HOUSE

WASHINGTON

December 27, 1978

Stu & Jack

Let's get the W.H. out of this as much as possible & let Mike handle it.

J

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu/by DL
JACK WATSON

SUBJECT: New York City

In anticipation of the meeting that had been scheduled last week with Moynihan-Carey-Koch, we prepared a briefing memo for you which detailed the cause of the latest New York City "fiscal crisis" and the steps we are taking to deal with this problem. A copy of that memo is attached, and if you have time we strongly recommend that you read it. We have also attached a copy of Mayor Koch's letter to you, released on the morning of the scheduled meeting. That letter strongly criticized the Administration for allegedly reneging on its commitments to the City, thus contributing to the City's current financial problems. We also recommend that you read his letter.

Briefly, the current situation is as follows: several months ago, the City officials realized they had underestimated their budget gap for the next fiscal year, and they began looking for ways to meet that gap. (In part, the gap was wider than anticipated because some Federal revenues did not materialize; the City had planned, for instance, on receiving $117 million from the countercyclical revenue sharing bill.) They discussed the problem with State officials, Treasury officials, and White House staff. The meeting scheduled last week was intended by them to bring you up to date on the magnitude of the problem, as well as to seek your support for increased Federal assistance.

Over the last week, as the various staffs have met to discuss the City's fiscal problem, several stories have appeared in the New York press about the problem and the efforts to develop a solution. However, in one of those stories, the one whose summary you read, the impression was given that you were upset with the New York officials. The other stories have correctly indicated that you have not been involved, and that information-gathering by staff is all that is currently occurring. A number of articles, at least one since the publication of the article you read, make clear that no schism exists between the Administration and the City, and that relations have not been changed since we worked together earlier this year on the Financing Act.

Last night, this point was made clear again to Koch when he met with some Administration officials to review the budget problem. That was an off-the-record meeting, and was not covered by the press.

As you can tell from Koch's letter, he has placed much of the blame for the City's current problems on the Administration's failure to "honor" such commitments as providing counter-cyclical revenue sharing funds. He has since been told, and my own recent meeting with his staff indicates that he understands, that such statements are unfair and counter-productive. Since the letter was drafted, Koch's tone has been moderated.

Until we have a fuller picture of the problem, and the extent to which the City feels the Administration needs to do more to help, it is premature for the Administration to take a public position on the City's problems. We should have a fuller picture by January 15, when the City publishes its budget for next year. Not until that date should we reschedule your meeting with Koch and Carey.

This is an extremely delicate political matter in New York. Many State and City officials believe we have no real choice but to be very forthcoming in providing aid, because of New York's importance in 1980. We clearly do not want to be in a "drop dead to New York" posture. But, we are concerned that the City and the State do as much as possible in alleviating the problem, and we do not want to give the appearance of giving in to the City's demands at this early stage.

We do not think it is necessary to issue a statement on the Koch matter at this time. First, those involved in the meetings with the City officials believe that Koch would take such a statement to mean we are willing to give him all the assistance he is seeking. Second, the Mayor does not expect any statement, for he has been informed in recent days that the story you saw was clearly in error. Third, a statement would elevate the "split" to a level that it does not currently enjoy in the press or the public.

THE WHITE HOUSE

WASHINGTON

December 27, 1978

Mr. President --

The New York Daily News summary you read was of a page three story which appeared on Friday, the 22nd. It has since been followed up by an analysis piece in the New York Daily News which states, among other things, that ". . . in trying to shift a part of his burden back to the feds, Koch is on shaky ground," and that, "For the most part, it appears that Koch would be hard pressed to make the case that Carter hasn't been generous to the city -- even when the loan guarantee bill is not considered." (The two stories, retyped for legibility, are attached.)

In a separate memo, Stu outlines the case for not making a separate, formal statement on your behalf at this time. I have found no one in the Administration connected to the New York situation who feels that it would be helpful to make a formal statement at this time. They feel that it would just send the wrong signal.

It is not yet a highly-visible, much-publicized story. Steps have been taken to get the disagreements back out of the public print, and it just seems best now to leave it where it is.

So, unless you feel otherwise, we will not do a formal statement at this time.

Rex

THE NEW YORK DAILY NEWS
Friday, December 22, 1978
Page 3

CARTER AND CITY ON COLLISION COURSE
By Harrison Rainie

Washington (News Bureau)--The Carter administration, long a staunch ally, is becoming increasingly disenchanted with how Mayor Koch and Gov. Carey are handling New York's latest budget crisis.

Specifically, President Carter has been told by top administration aides that the two New York officials could do more on their own to close the budget gap. Koch, in turn, has complained that Carter has reneged on pledges to help the city.

A face-to-face confrontation between the New York camp -- Koch, Carey and Sen. Daniel P. Moynihan -- and Carter was everted yesterday when the President became ill and scrapped a scheduled White House meeting.

"It would have been a real spitting match," said one source close to all the parties. "Everybody is diametrically opposed to each other. Let's hope everybody cools down before next time."

Carter has been advised by his aides to demand that Carey earmark much of the state's estimated $611 million surplus to reduce the city's projected deficit.

He was prepared also to attack Koch for failing to win so-called givebacks from municipal labor, and for unfulfilled promises to slash the city work force through attrition, reduce welfare and health costs and to cut costs by improving procurement policies and management.

Compounding the conflict is the irritation Carter and some of his key aides feel over recent comments by the mayor and governor criticizing the President and his chief domestic planner, Stu Eizenstat.

Eizenstat is reportedly furious that Carey recently told Time magazine: "I just can't seem to get our ideas communicated (to him). I've yet to see an idea come out of Eizenstat's shop."

MORE

Koch provoked White House anger when he went before health insurance hearings sponsored by White House nemesis Sen. Edward Kennedy (D-Mass.) and ripped into the administration for "reneging daily" on promises of fiscal support.

In a paper detailing what he planned to say to Carter, yesterday, Koch charged that Treasury Secretary W. Michael Blumenthal had promised more than $80 million in additional federal aid this year but had only delivered $17 million.

Koch said the city could settle for $100 million in federal aid for fiscal 1980, but claimed that along with the additional aid, $145 million originally promised for fiscal 1979, ending June 30, never showed up. Another $221 million in the plan for fiscal 1980 is in danger, he said, because Congress did not renew countercyclical aid and certain other programs.

Leaves yelling to others

"I was going to say, 'Mr. President, how long can this go on?' Of course, I was going to say it modestly. One doesn't yell at the President," Koch said. "I'm going to leave the yelling to other people."

"All we're asking is that they keep half of their commitment," he said.

Koch's memo outlined where $100 million from the feds could be found -- $40 million if countercyclical aid is renewed, for instance, $10 million if a Social Security contribution hike is rolled back, etc.

The President was ready to dispute Koch's charge and level some of his own, according to some White House briefing papers prepared for yesterday's canceled meeting.

Trail of broken promise

Carter was told that Koch had left a trail of unfulfilled promises last year on actions that would have helped reduce the projected $1 billion city budget deficit.

Deputy Treasury Secretary Roger Altman said he had informed Blumenthal that the city's finances were in worse shape than expected at the end of the year for four reasons: the Congressional

MORE

reduction of the Comprehensive Employment and Training Act, the loss of Carter countercyclical revenue sharing plan; higher than expected labor settlements in the city; and the small number of budget cuts Koch has made.

Sees cuts 'back loaded'

Altman predicted that those factors would force the city to "back load" the most extensive budget cuts in 1981 and 1982 at the tail end of the city's four-year fiscal plan.

The meeting had been arranged by Moynihan after he reportedly alarmed Carter last month with the warning that "the city continues to slide into bankruptcy."

Moynihan said yesterday that he still believes the budget gap will be closed by an equal sharing of the costs between the feds, the city and the state. He said the federal share should come from Carter's coming welfare reform package.

# # #

THE NEW YORK DAILY NEWS
Tuesday, December 26, 1978
Page 18

KOCH SEEN OFF BASE IN $LAP AT CARTER

By Bruce Drake
An Analysis

Washington (News Bureau)--Is Mayor Koch an ingrate?

That question is being raised by some Carter administration officials who were under the impression that their successful advocacy of the $1.65 billion federal loan guarantee bill was no small repayment of the President's political debt to New York.

But as concern mounts anew about the fate of the city's financial recovery plan, Koch has complained publicly that the administration is "reneging daily" on finding ways to provide additional federal aid for the city to help plug its budget gap -- over and above the assistance made possible through the loan guarantee program.

Koch repeated that position Thursday, telling Carter in a memo that he believed Treasury Secretary W. Michael Blumenthal made a firm commitment to find $145 million in federal funds this year and $221 million in 1980 as party of the four-year financial plan. All that's shown up this year, says Koch, has been $17 million.

On shaky ground

But in trying to shift part of his burden back to the feds, Koch is on shaky ground.

For one thing, administration officials, including some privy to the many meetings between Koch and Blumenthal, insist that the Treasury Secretary did not give Koch a hard and fast commitment to deliver a specific amount of federal funds.

"He said that he would try," recalled one administration official. "Considering that many of the proposed ways of providing more federal aid to the city were legally iffy, and considering that others required legislation and depended on congressional whims, any other response would have been irresponsible. Koch was in Washington for nine years and he should know that better than anyone."

MORE

A major item that the city counted on for 1979 was $84 million from the reauthorization of the antirecession aid program.

But that program came close to being killed in 1977 by its chief foe, House Government Operations Committee Chairman Jack Brooks (D-Texas), and there were numerous warning signs as early as last January that Brooks and his allies would succeed in killing it -- as they did -- this year.

But when Koch was questioned about his plan's reliance on antirecession aid during several trips to Washington during the year, he either expressed his characteristic upbeat view of events or downplayed it as just one element of the plan that would and could be altered if necessary.

And when Koch took office, his "wish list" of proposals to Washington on ways of increasing federal aid was, for the most part, a carbon copy of the same proposals that former Mayor Beame had sought unsuccessfully.

Koch, for instance, has continued to propose that the federal government boost New York City's revenue-sharing funds by $20 million a year by including 750,000 illegal aliens in the population estimates that determine each city's share. But city officials had been warned since the Beame administration that counting illegal aliens in New York could result in a rush on the Treasury by Los Angeles and other western and southwestern border cities seeking similar extra funds.

For the most part, it appears that Koch would be hard pressed to make the case that Carter hasn't been generous to the city -- even when the loan guarantee bill is not considered.

Positive steps taken

The Carter administration settled a years-long dispute over social service payments to the states that meant more than $75 million to the city. It proposed and won a new formula for community development block grants that will ultimately increase the city's share by about 50%. It supported formulas in multibillion dollar public works bills that insured New York State and the city a maximum possible share.

Carter also doubled the federal public service jobs programs, enabling New York City to field a federally funded

MORE

payroll of 27,000 workers under the Comprehensive Employment and Training Act. The administration proposed and won new money for hardpressed cities under this year's elementary and secondary education bill, which may mean an extra $100 million a year for New York City.

The major category in which Koch can justifiably say Carter has reneged is welfare reform. Carter promised in his 1976 campaign to lift the welfare burden off the backs of local government -- a $556 million burden for New York City. He has since retreated from that position, although there also is no assurance that Congress would have supported completely a total fiscal relief proposal.

The Carter administration is split into two schools of thought about Koch. Some presidential advisers want to bend over backwards to make sure the Koch-Carter relationship remains cordial because of New York's importance in the 1980 elections.

But other Carter advisers are beginning to grumble about some of the mayor's recent statements. "I think some people in the administration should realize that New York politicians like Koch and (Gov.) Carey are experienced at playing hard ball," one aide said privately, "and that the only way to keep things from getting out of hand is to play hardball back."

# # #

THE WHITE HOUSE

WASHINGTON

December 20, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT Stu
JACK WATSON Jack
ORIN KRAMER

SUBJECT: Meeting With Senator Moynihan et al

I. PURPOSE OF MEETING

Senator Moynihan requested this meeting to discuss welfare reform and other issues of importance to New York. The primary focus of the participants will be on New York City's impending fiscal problems.

II. PARTICIPANTS AND PRESS PLAN

Senator Daniel Patrick Moynihan
Senator Jacob Javits
Governor Hugh Carey
Mayor Ed Koch
Deputy Mayor Phil Toia
City Budget Director James Brigham
Robert Morgado, Secretary to the Governor

Press Plan: None

Participants' Agenda

The participants are likely to make the following arguments:

-- The City's fiscal outlook has deteriorated because of the reduced prospects for federal aid. Mayor Koch says he is committed to take whatever actions are necessary to balance the budget as required under the City's Financial Plan, but he will argue that extremely damaging cutbacks will be required if increased federal aid does not materialize. Senator Moynihan's view is bleaker: that the City simply cannot comply with the Plan and faces bankruptcy if more federal aid is not forthcoming. Moynihan suggested yesterday that the federal, state and city governments each take responsibility for closing one-third of the City's $1 billion budget gap -- which is unrealistic.

-- Their basic argument, which they may not state explicitly, is that the Administration dealt with the City's financing (i.e., borrowing) problem through the Loan Guarantee Act, but that the Administration has not adequately addressed the underlying problem which causes the City's credit difficulties, i.e., the budget deficit. They will argue that their commitment to balance the City's budget by 1982 was predicated on certain assumptions about increasing federal aid, that Treasury initially characterized those assumptions as valid, and that the prospective "shortfall" in federal aid constitutes a "breach of faith" with the City.

-- Consequently, they will ask you to redeem the Administration's "commitment" to increased fiscal aid, through welfare reform and a variety of other actions.

This memorandum describes the City's budget outlook, the real nature of the Administration's "commitment," and a recommended strategy for the meeting.

City's Fiscal Condition

A. The Problem

The Loan Guarantee Act will meet New York's borrowing needs over the next four years. However, the financing commitments of the various parties are contingent upon the phased elimination of the City's $1 billion deficit over four years. Although the financing problem is tentatively resolved, the budget outlook is deteriorating, as projected deficits have been revised steadily upward since last spring. The City's present deficit estimates, which have been accepted by Treasury, are $408 million in City fiscal 1980, $882 million in 1981, and $1 billion in 1982. In evaluating the implications of those figures, you might note the following:

-- Despite the upward trend, the City's "real" deficit is not increasing. The apparent increase in the gap reflects two factors: (1) the transfer of operating expenses from the capital budget to the operating budget (the practice of capitalizing operating expenses will be eliminated by 1982), and (2) the official Plan does not reflect any unanticipated non-recurring revenues, which normally amount to 2-4% of the City's revenue base. In fact, City revenues and baseline expenditures are growing at the same rate. Thus the elimination of the $1 billion deficit should permit the City to achieve a recurring budget balance after 1982 without major annual expenditure reductions or tax rate increases.

-- All parties and the Congress always recognized that the City would face deficits until 1982. The increased magnitude of the deficit, which has now assumed "crisis" proportions, reflects several factors. First, the Congress failed to extend countercyclical fiscal assistance and tightened restrictions on the use of CETA funds. These Congressional actions cost the City $117 million in 1980. Second, last summer's labor settlement added $165 million in 1980 and $225 million in each 1981 and 1982. Finally, unanticipated one-shot revenues and spending shortfalls enabled Mayor Koch to defer planned 1979 City cuts, which would create recurring savings, until 1980. This has "backloaded" the 1980-1982 gap.

-- This analysis of the widening deficits suggests several conclusions. First, the Mayor once pledged to implement service cutbacks and 4% attrition in fiscal 1979. In our view, the Mayor's failure to implement these cuts in 1979 was a mistake, and his failure to do so has deepened the post-1979 deficits. The Mayor would respond that his obligation was to meet a fixed deficit reduction mark in 1979, and that non-recurring revenues permitted him to do so without implementing the cost reductions he had initially prescribed. The Mayor is technically correct, but he is subject to legitimate criticism for having by-passed the opportunity to capitalize on his political popularity to make major cuts in 1979.

-- Treasury and Stu have reviewed the actions the City is comtemplating to meet its 1979 and 1980 deficit reduction marks. Although tension may develop as the City moves toward the January 15 announcement of its 1980 fiscal plan, we are confident that the City's 1979 and 1980 goals will be met.

-- The year in which the most drastic cuts must be implemented is City fiscal 1981. To achieve the necessary savings, it will be necessary for the City workforce to shrink by 44,000 jobs (22 percent), which will follow the 20% shrinkage that has already occurred since 1975. Leaving the social costs aside, the fact that the municipal unions are both the City's bankers and the recipients of the cut-backs will make the achievement of the 1981 mark extremely difficult, to the point where serious discussion of the bankruptcy option is possible. Indeed, the 1981 deficit is almost certainly understated, since 1981 projected expenditures do not take account of increased labor costs. Existing municipal labor pacts expire at the end of fiscal 1980. The Mayor is taking the position that any new wage settlement should be funded through productivity savings, but nobody regards this position as tenable.

-- Because the City's fiscal 1981 begins July 1, 1980, and because the crisis will peak at the beginning of the fiscal year, the Administration's political problem is evident. The dynamics of New York politics are such that local parties are almost certain to blame the "1980 fiscal crisis" on the Administration.

B. Administration Strategy

For both substantive and political reasons, the Administration must accelerate City expenditure reductions and increased State aid in order to modify the present back-ended nature of the plan. Specifically, we must achieve significant City cuts and increased State aid in the City's 1980 budget to produce recurring savings in 1981 and 1982.

The Mayor asserts that he will take the necessary tough actions in 1980, but we have already joined Treasury in working closely with him to assure that our objectives are achieved. The critical open issue is the State role, and the magnitude of the Governor's commitment is unclear. The State has a true $610 million surplus for fiscal 1979, and $600 million has been projected for tax refunds.

The Administration has several upcoming opportunities to force the necessary changes. First, Treasury must approve the City's January 15 Plan. Second, the issuance of Federal guarantees in February is contingent upon Secretary Blumenthal's finding that the City is making "substantial progress" toward a balanced budget.

It would be preferable for the City and State to take the necessary steps without the appearance of pressure from the Administration, which could be used to make the Administration politically accountable for the cutbacks. Nonetheless, we must be prepared to intervene more actively than Treasury has in the past to assure that the necessary actions to mitigate the fiscal 1981 problem are taken.

While we are engaged in this quiet effort to assure a satisfactory City budget, our public statements should suggest that while the Administration seeks to be cooperative, primary responsibility for resolving this problem is with the City and State.

You can mention in general terms your commitment to do your part through programs such as welfare reform (fiscal relief) to aid the City. However, we strongly recommend against specific commitments regarding other programs or aid levels.

Recommended Talking Points

Introduction

-- During 1976 campaign, I pledged a partnership with Governor and Mayor to solve the City's crisis.

-- Once elected, I formed it. It has worked well so far.

-- That partnership got us the City Guarantee Act, which was one of your highest priorities in the 95th Congress.

-- Let's continue that partnership approach for 1979.

To Koch:

-- Realize your commitment to balance the budget and take whatever steps are necessary to do it.

-- Nevertheless, hope that you will propose major and structural changes in the City's expense structure--hospitals, City University, etc. -- in your January 15 budget message.

-- Those major costs are needed now to avoid a dangerously "back-loaded" budget balancing task.

-- Such deep cuts are not easy, but they must be done.

-- First responsibility for the City's survival is yours.

To Carey:

-- Your record of increasing State aid to the City is good.

-- You pledged a $250 million increase in 1979 and delivered on it.

-- You also testified that this $250 million probably could grow to $450 million by 1982. Our numbers show that the full amount of those increases will be needed for NYC as rapidly as possible.

On Federal Aid:

-- The conventional wisdom was that the Loan Guarantee Act proposed by the Administration could not be enacted. You requested it, you got it, and it required an extraordinary effort on the part of myself and Secretary Blumenthal. Let's not forget it.

-- On fiscal assistance, final budget decisions have not yet been made, and the Administration remains committed to meeting urban needs. But fighting inflation is the top national priority, it is a priority of New York citizens as well as others, and it will require a tight budget. Congress may cut my budget rather than expand it.

-- Last year federal aid to New York State increased by nearly one-third, the largest increase of any State. The City has also done well. The Administration's economic stimulus package alone brought the City $561 million-more than the City's total AFDC expenditures.

-- I will be making recommendations regarding welfare reform shortly.

The key principles will be:

-- A uniform national minimum benefit, with state option to supplement above that and receive some federal matching.

-- Fiscal relief, although I have not decided on the level.

-- Improved work incentives and expanded work opportunities as an alternative to welfare, although at a lower level than the Administration's original package.

I would be interested in your thoughts as to when such fiscal relief should be phased in (the City needs the relief in 1981).

NOTE:

A welfare reform decision package will be submitted to you on Friday with options ranging from roughly $5.5 to $10.7 billion at full implementation in FY 1982 dollars.

The low option will include $900 million in fiscal relief, with $66 million for the City and $178 million for the State. These levels are approximately one-third of what last year's proposal would have provided and two-thirds of what the Moynihan-Cranston-Long proposal promised, although the latter would have provided relief beginning sooner. OMB, DPS, and the departments will recommend that the cash elements of welfare reform, including fiscal relief, be phased in for FY 1981 <u>if</u> negotiations on the Hill make that desirable.

-- Regarding the Administration's "commitment", we will continue to attempt to meet the City's needs in the context of overall budget constraints. Treasury and Stu have already begun meetings to determine how we can help with your 1980 and 1981 budget problems. We fought together with Senator Moynihan to get the Congress to enact the countercyclical bill which would have given the City $125 million in 1979.

Likewise, Secretary Blumenthal committed to seek favorable action on the administrative actions you requested. But some of those "administrative" actions required legislation, and others involve issues which are extraordinarily difficult and which the City has been attempting to have resolved for years.

-- On March 2, 1978, Secretary Blumenthal stated the Administration's position before the House Banking Committee: "our general view is that the City has primary responsibility for its budget, and beyond that, the State has the principal responsibility. Nevertheless, the City's needs are such that some federal residual budget assistance is clearly justified."

<u>Westway</u>

It is probable that Governor Carey (or possibly Mayor Koch) will raise the issue of Westway with you. Governor Carey has been quoted in the press as saying he thinks you should fire Chris Beck (the Regional EPA Administrator in New York) for his failure to give EPA approval to the project. Governor Carey is, publicly and privately, blaming the Federal government for the delay in going forward on Westway. The fact of the matter is that the Federal government cannot act until the State acts on the air and water quality issues involved in the case, and the State has not done so.

-- Last year, the New York State Department of Environmental Conservation refused to issue an air quality permit and, instead, reopened the hearing process. As of this time, the State has still not issued the necessary permit.

-- As to the necessary water quality permit, here too the initial decision is at the State level. Under long-standing regulations, the Army Corps of Engineers does not act to grant a Section 404 permit unless and until the State issues its own certificate; that has not been done in New York.

You should be aware that two other Federal agencies have expressed serious objections to the project based upon its effect on water quality in the Hudson River. The Fish and Wildlife Service in the Department of Interior objects to filling in such a large portion of the river, and the Marine and Fisheries Service in NOAA objects on the ground that there is a better non/water alternative.

EPA has indicated (through Chris Beck) that there are insufficient data on the water quality issue for EPA to make a recommendation to the Corps on the matter, or to exercise its final approval authority under Section 404(c) of the Clean Water Act. Whatever decision is reached by the District Corps Director, the final decision will have to be discussed by the neational office of the Corps with the objecting Federal agencies.

Recommendation

With respect to Chris Beck, we think you should say that you have the utmost confidence in Doug Costle and in his judgment, both in running the agency and in selecting his regional administrators. Carey should not be permitted to make Chris Beck, or the Federal government, the scape-goat in this matter (as he is trying very hard to do.)

With respect to Westway in general, you can assure the Governor that once the State makes its own decisions, the Federal agencies will expedite their review and make decisions in accordance with their legal responsibilities. Whatever decisions are ultimately made must be supported by a thorough record, since the decisions and the entire process by which the decisions are made are subject to judicial review, and will almost surely get it.

160
BK

5

JW

1978 DEC 27 AM 7 38

THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, N.Y. 10007

December 21, 1978

Hon. Jimmy Carter
The President
The White House
Washington, D.C. 20005

Dear Mr. President:

I was sorry to learn of your illness this morning but pleased to be reassured that it is transitory.

The Governor, Senators and I look forward to scheduling another appointment shortly. In preparation for our meeting, I had prepared a brief analysis of where we are in New York City financially. That memorandum was circulated amongst those who were to be present at the meeting this morning. Knowing the nature of government, these materials are never kept confidential for more than a day when so many people have them. Therefore, I have released the memorandum this morning to the members of the press to make available the full scope of its contents instead of leaving the public to speculate on only the leaked portions.

May I also thank you for your kindness in sending the pictures of you, Mrs. Carter, the Governor and myself taken at the heliport when you were last in New York City.

I look forward to our next meeting and more important to your speedy recovery.

Sincerely,

EK

Edward I. Koch
MAYOR

Hand Delivered by Julian Spirer, Director of the New York City Washington Office

THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, N.Y. 10007

December 21, 1978

MEMORANDUM

To : President Jimmy Carter

From: Edward I. Koch
Mayor of the City of New York

SUMMARY

On January 20, shortly after I assumed office, I submitted to W. Michael Blumenthal, the Secretary of the Treasury, a Four Year Financial Plan covering the fiscal years 1979 through 1982 which had been approved by the City, State and Federal Governments. The purpose of this Plan was twofold: to set forth the means by which the City could achieve a truly balanced budget by fiscal 1982 and to establish a program by which the City could obtain adequate sources of financing until it was able to re-enter the credit market.

Through your support, and with the signing of the guarantee bill, the latter problem has been solved. The former problem remains with us and is the subject of this letter.

The guarantee bill was passed by the Congress on the basis of the Financial Plan. This Plan contained commitments by the City, the State of New York and the Federal government to undertake actions which would close the City's budget gap for the next four years. The plan was stated as a partnership between the City, the State and the Federal government, since it has been generally recognized that the City alone does not have the resources to deal with this problem by itself.

As projected in the January 20 submission, the gaps are as follows:

($ In Millions)

FY 1979	FY 1980	FY 1981	FY 1982
$457	$704	$903	$954

The plan stated that these gaps would be closed by a series of City, State and Federal actions and commitments, which for 1979 amounted to $200 million for the State of New York and $83 million for the Federal government. While State assistance actually exceeded Plan commitments, the Federal assistance fell far short of the amount indicated in the Plan.

In drawing up our Financial Plan, we assumed that existing Federal aid programs would be maintained at current levels. Additional aid, in the amount of $83 million, also had been projected, with federal concurrence. As Secretary Blumenthal stated in his testimony before the House Subcommittee on Economic Stabilization:

> The Federal Government reviewed its program and indicated that we would, under existing programs, through counterycliçal revenue sharing, through community development reallocation, and through the Carter welfare reform that is coming along, be able to provide additional resources to the City.

Yet, not only do we now project that the City will receive only $17 million of the projected $83 million, but existing aid programs have been cut. The effect of these reductions and the consequent shortfall in Federal aid is to force the City to provide another $145 million from its own limited resources, in addition to the $174 million in City actions set forth in the Plan for the 1979 fiscal year.

Clearly, the shortfall in Federal aid for fiscal 1979 will have deleterious effects on basic municipal services and the quality of life in the nation's largest City. And, just as clearly, we cannot absorb any further federal shortfalls in succeeding years. It also is unlikely that the City will uncover any new sources of revenue. It is clear, then, that the Federal government must meet its commitments if the Four Year Financial Plan is to succeed.

REVIEW OF FISCAL 1979

Let me briefly review the events that have happened since I presented the City's Four Year Financial Plan on January 20, 1978.

After we submitted the Plan which had been approved by the Secretary, representatives of the Federal government and State government continued to meet with the City to develop the specific programs necessary to close the City's FY 1979 budget gap On April 27, 1978, I submitted my Executive Budget which was balanced and incorporated the City's gap closing actions as well as the Federal and State programs which were developed from our joint discussions. This budget was adopted by the City Council and Board of Estimate with relatively few minor changes in June, 1978. At approximately the same time, our fiscal monitor, the Emergency Financial Control Board, approved the City's 1979 Financial Plan which corresponded to the City's adopted budget.

However, in August, serious concerns were raised involving the cornerstone of the Federal assistance program -- the countercyclical aid program. The City began to implement elements of its contingency programs to provide for additional savings in fiscal year 1979. In September, when it appeared that Congress would adjourn without passing an extension of the countercyclical aid program, I reviewed the situation and decided, among other actions, to implement a hiring freeze and severely restrict non-personnel related expenses in order to generate the savings necessary to keep the budget in balance. This loss of Federal assistance not only forced the City to take dramatic action to maintain its balanced budget, especially at a time when the City was trying to complete the financing agreements associated with the loan guarantees and develop its plans to enter the public market, but also has called into question the level and reality of the Federal commitment to New York City that had been presumed in all four years of the Financial Plan.

I believe it is imperative that the facts of the City's budget condition be made known to you personally. I further believe that I have demonstrated through the various actions that I have taken to date, that New York City will continue to do all within its power to balance its budget. We can and we will do more, although there is no doubt in my mind nor in the minds of knowledgeable observers that the City does not have the resources to meet the increasing budget gaps on its own. The State has also demonstrated a large measure of support and commitment and, as the facts will show, has already exceeded its commitment for Fiscal Year 1979 as spelled out in our earlier Plan. In addition, the Governor has restated his commitment that the State will meet its commitment to provide additional aid to the City for Fiscal Years 1980, 1981 and 1982 as set forth in the Four Year Financial Plan. It remains for the Federal government to fulfill the commitments that we feel were made and which are evident in the record.

Four Year Financial Plan

Overview of Federal Assistance

Four Year Financial Plan
Federal Assistance
($ In Millions)

	FY 1979	FY 1980	FY 1981	FY 19
January 20, 1978 Financial Plan				
General Revenue Sharing	$306	$303	$311	$312
Countercyclical Aid	84	57	-	-
Total	390	360	311	312
Additional Support Commitment*	83	108	132	120
Total Unrestricted Federal Aid Commitment	473	468	443	432
Adopted Financial Plan November 9, 1978				
General Revenue Sharing	303	294	299	301
Countercyclical Aid	15	-	-	-
Loss in CETA Revenue	-	(57)	(57)	(57
Housing Assistance	7	7	7	7
Other Assistance	3	3	3	3
Total Per Financial Plan of 11/9/78	328	247	252	254
Unspecified Federal Actions	$145	$221	$191	$178

* The additional commitment for FY 1980, 1981 and 1982 is derived by applying the ratio between the Federal Actions to the total actions in FY 1979 (83÷283 = 29.3%) to the Federal and State Actions in the January 20, 1978 Plan.

Summary of City Gaps To Be Closed

Below appears the summary of the City's gaps to be closed included in the Four Year Financial Plan approved by the Financial Control Board on November 9, 1978. As shown in the plan the City has already taken steps to offset the loss of the $145 million of federal aid and thus has been able to maintain a balanced financial plan for fiscal year 1979. Furthermore, the projected gap to be closed by Federal and State actions before the City Supplemental program for Fiscal Year 1980 has been reduced to $300 million because of these additional City actions. The State has committed approximately $200 million to closing this gap. Thus, the City is seeking from the Federal government an additional $100 million in FY 1980, an amount far less than the commitment of $221 million included in the original Four Year Financial Plan. If the Federal government does not honor even this reduced commitment, the City will have no choice but to implement a program of drastic reductions which will seriously impair its ability to render essential services.

We would also state that while the current City actions have in effect reduced the Federal commitment requirements by $145 million in FY 1979 and by $121 million in FY 1980, the City will require the application of these unused commitments in FY 1981 and FY 1982 as part of the actions necessary to close the gaps in those years.

	FY 1979	FY 1980	FY 1981	FY 198
		($ in millions)		
Gap To Be Closed Per Financial Plan Adopted 11/9/78	-	$ (439)	$ (879)	$ (1,0
City Program to Close Gap	-	139	303	4
Remaining Gap To Be Closed by Federal and State Actions	-	(300)	(576)	(6
Supplemental City Programs	-	111	375	4
Remaining Gap To Be Closed by Federal and State Actions	-	$ (189)	$ (201)	$ (1

Federal Assistance

	($ in millions)
Legislative	
Reauthorization of countercyclical	$ 40.0
Rollback or other relief of Social Security employer contributions	10.0
Welfare Reform that does not expand case loads and provides interim relief, such as the Moynihan proposal	36.0
Nursing home cost funding to 100% on a phase in basis over three years	49.0
Increase in appropriations for newly authorized Transportation and Education programs	
Maintenance of CETA program at current funding levels. A reduction of CETA jobs would cause an increase in unemployment and substantial expansion of the public assistance and the medical assistance rolls	
Administrative Recurring Assistance (Except where noted)	
Continued eligibility of *in rem* program for a CD V funding from current level of $40 million to $100 million. This action would prevent an additional budget gap up to $100 million.	
Completion of acquisition of City/State housing units	15.0
Full reimbursement for housing police	29.0
Full reimbursement for advances made for HR clients pending SSI determinations. This is a non-recurring action.	8.0
Approval of CETA indirect cost rate. Only $5 million of this action is recurring.	25.0
Recision of acceleration of localities payment schedule for FICA	5.0
General Revenue Sharing appeal to permit inclusion of Stock Transfer Tax and uncounted persons in the population estimate. Only $6 million of this action is recurring.	24.0
Wards Island - National Fire Academy	1.4

	($ in millions)
Expansion of UN Police Protection Regulationsto permit broader coverage	3.0
Approval of a demonstration program to permit direct rent payments by the Department of Social Services to the Housing Preservation and Development Agency and/or the Housing Authority for welfare tenants living in *in rem* or public housing would increase City rent collections	

THE WHITE HOUSE
WASHINGTON

12/29/78

Alfred Kahn

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

12/29/78

Alfred Kahn

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

THE WHITE HOUSE

WASHINGTON

C

December 20, 1978

MEMORANDUM TO THE PRESIDENT

FROM: A. E. Kahn Fred

SUBJECT: Main Developments in the Anti-Inflation Program, December 8-21, and Background on Some Upcoming Issues

I. Informational Items

A. Wage/Price Standards

1. The final pay/price standards were released (after public comment) last week

-- The modifications on maintenance of fringe-benefits costs and the profit-margin restriction were, on balance, well received; the comments have been highly favorable.

-- Future clarification of the standards (particularly as they apply to specific situations) will be handled by CWPS through regular releases of Q's and A's.

-- The high volume of calls and letters and the nature of the questions convinces us that the standards are being taken very seriously by companies and employee groups.

-- The very seriousness with which the standards are being taken creates some problems. Many companies have already sought to file requests for exceptions, as in a mandatory program. This is generating a heavy workload.

2. The program has temporarily avoided a court challenge on the legality of the procurement sanction.

Let's don't back down unless forced by courts -

-- A Federal District Court has temporarily resolved the West Coast paper industry union suit against CWPS by denying their request for an injunction and requiring CWPS to provide a full hearing on the union's request for a "gross inequity" exception from the standards.

-- If CWPS declines to grant an exception, the case may return as a challenge to the procurement sanction.

-- A legal test of your authority is inevitable; it seems desirable to have it early in the program.

3. The oil worker negotiations in January will provide the first major test of the program

-- We have met with both parties to explain the Administration's concern.

-- There is the risk of a strike. The ability of managements to maintain refinery production offers a hope of keeping any economic disruption to minimal levels. A sympathy strike by Teamsters, refusing to deliver products from the refineries, could inflict serious hardship on the public, but the likelihood of this is, we think, small.

-- We have established an interagency group to monitor the economic impact.

-- There is reason to believe, however, that the oil workers would like to avoid being the first to defy the anti-inflation standards; we think, therefore, there is a fair chance of a settlement within the 7-percent standard, perhaps by getting the union to agree to a short-term contract that will shift the focus to the Teamsters.

-- We suggest the Administration avoid making public predictions, beyond expressing cautious hope and optimism.

4. We have met on several occasions with leaders of the Brotherhood of Teamsters.

   -- Their negotiations have begun and the contract will expire at the end of March.

   -- This will be one of the most crucial labor negotiations in 1979; the second most likely trouble spot is rubber.

   -- A national strike would have very severe economic effects.

   -- At present, we believe that a desire to comply with the standards (in part because of the potential political effect on efforts to deregulate the industry) and economic problems within the industry will lead to a resolution of this contract close to our 7-percent objective.

5. The public furore over state and local legislative pay increases in excess of the standards has produced some victories.

   -- The Chicago Board of Aldermen sharply reduced their planned increase and incorporated it within a pay group that included other management personnel of the city, and are now in compliance with the standards.

   -- Boston has done the same thing, on the basis of consultations with us.

   -- The Illinois legislature rejected a similar resolution that we worked out in consultation with the Governor. The Illinois and Ohio legislatures remain in defiance of the standards. They seem to be delaying, hoping that public attention will recede.

   keep up quiet pressure

   -- The high visibility of these cases has alerted other public officials; we therefore expect few problems with other States.

6. Even with a general-schedule wage increase of only 5.5-percent, we cannot be absolutely sure that the average wage-plus-fringe-benefit increases for Federal employees in this fiscal year will be less than 7-percent.

   -- This is so because of "grade creep"--promotions, merit increases and step increases--whose ultimate size for FY 1979 there is no way of knowing in advance.

   -- If previous trends continue, as expected, there will be no problem in meeting the 7-percent standard.

   -- Some members of the Administration, however, using the outdated published FY 1979 budget information have questioned whether Federal workers will be in compliance with the pay standard. And some reporters have been alerted to this possibility.

   -- This is obviously a sensitive issue and we must leave no doubt that Federal workers will comply.

ok

   -- We would, therefore, like permission to say (if we are pressed on the issue) that the Federal Civilian Workers will definitely be in compliance; that while we have no reason from historical experience to expect this to happen, we will be carefully monitoring grade-creep, and if it appears to be exceeding expectations, you stand ready to put a freeze on promotions and merit increases in order to assure compliance with the pay standard.

B. Inflation Outlook

Since this will be part of the budget overview on Friday, I'll not burden this memorandum with it.

II. Issues for Future Decision

A. Legislative Package

It now appears that the legislative package of anti-inflation proposals will be limited to real wage insurance, hospital cost containment, and reform of surface transportation regulation (although legislation requiring a compliance test for State and local grants remains a live possibility).

1. Opportunities to reduce excise taxes are very limited, since it would increase the budget deficit.

2. Proposals to the Federal grant payments to reductions in State sales taxes are infeasible for the same reason; and also because they would meet strong political opposition.

3. Your advisers with competence in this area feel that any attempts to change the minimum wage law or the Davis-Bacon Act are out of the question politically. This is unfortunate, in terms of the credibility of the anti-inflation effort. It appears even the much more modest change of postponing the scheduled increases for teenage workers--even though it could have beneficial effects on youth employment--would raise such serious political problems as to be infeasible; and its anti-inflationary effects would be so slight it would not be possible to justify the effort on those grounds.

4. Changes in the administration of Davis-Bacon, however, offer significant anti-inflation benefits and remain under active consideration.

5. The Economic Policy Group will shortly complete the development of the Real Wage Insurance proposal for your consideration. There are several aspects of the program that will be controversial.

   -- The higher inflation forecast for the first part of 1979 will increase the expected budget costs to $2-3 billion.

   -- There will be some difference between the CWPS criteria for measuring a company's compliance with the anti-inflation program and the criteria for Real Wage Insurance.

      -- There are several plausible situations in which a company will pay wage increases above 7-percent yet still be in compliance--for example, because its contracts or pay scales were set before October 25, or because it has a large number of exempt employees. Since its actual pay increases will average more than 7-percent, however, its employees would not qualify for real wage insurance.

-- The need for auditing by IRS also creates some difficulties because of the problems of measuring the costs of fringe benefits with precision.

-- There are differences of opinion among your advisers about whether Federal employees should be covered.

B. Energy Prices

You will be receiving decision memoranda on two energy issues with an important inflationary impact: the decontrol of crude oil and of gasoline prices.

1. The decision to remove price controls on crude oil requires a choice between the energy policy (expressed at the Bonn summit) of bringing domestic crude oil prices up to world levels and the inflation that higher prices necessarily entail.

   -- The issue is complicated by the fact that any proposal to raise prices rapidly may as a political matter require the Administration to propose a tax on windfall gains to producers. Such a tax would be an addition to the already crowded legislative calendar and may cause the same sort of political difficulties as were met with the Crude Oil Equalization Tax.

   -- Any proposal to raise prices slowly, on the other hand, would require us to propose an extension of the current EPCA authority, either now or by 1981.

2. The Department of Energy has proposed to decontrol gasoline prices in order to remedy the current inadequate incentive to build new refining capacity. Without some action--

whether decontrol or an increase in the present DOE ceilings--DOE believes, substantial shortages of unleaded gasoline will develop in the period after 1980. At this time, it is highly uncertain by how much prices would rise under decontrol, but increases of 3 or 4 cents per gallon over and above the increases necessitated to cover the rising price of crude oil--are entirely possible.

-- We are working on how to apply the voluntary guidelines to refineries, should prices be decontrolled. This is no simple matter, since rising oil costs will make it impossible for the oil companies to meet the price deceleration standard; and the profit-margin standard, too, may be excessively restrictive because DOE price controls have constructed their profit margins excessively in the base years (1975-77). A continuation of those compressed profit margins may perpetuate the disincentive to build new refineries. In addition,

-- We are working with DOE staff to develop a better estimate of the inflationary consequences of gasoline decontrol.

Both of these deregulation issues will be complicated by the recent sharp increases in OPEC prices and the need to consider tax increases to recapture any excess profits resulting from crude oil decontrol.